COVER SHEET

1	2	9	9	8					

SEC Registration Number

RFM CORPORATION

(Company's Full Name)

RFM Corporate Centre, corner Pioneer and Sheridan Streets Mandaluyong City

(Business Address: No. Street City/Town/Province)

ATTY. JUFIL E. SIQUIAN

(Contact Person)

631-8101

(Company Telephone Number)

1	2	3	1
Month		*Day*	

(Calendar Year)

Definitive 20-IS

(Form Type)

0	7		
Month		*Day*	

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

NA

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number	LCU
Document ID	Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

RFM CORPORATION

AMENDED NOTICE OF SPECIAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the **Special Meeting of the Stockholders of RFM CORPORATION** will be held at the RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City 1550 on **Friday, 07 September 2018 at 11:00 o' clock A.M.** with the following amended AGENDA:

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
AUG 08 2018
MARKET REGULATION DEPT.
BY:
TIME:

I. Call to Order

II. Certification of Notice and Quorum

III. Approval of the Minutes of the Annual Stockholders' Meeting held on 25 July 2018

IV. Shareholders' Approval of the Merger among RFM Corporation (as Parent Company and as Surviving Corporation) and its subsidiaries Cabuyao Logistics and Industrial Center, Inc. (CLIC), Interbake Commissary Corporation (ICC) and Invest Asia Corporation (IAC)

V. Amendment of the Second Article (Primary Purpose) of the Articles of Incorporation to include the absorbed businesses and purposes of the subsidiaries to be merged with RFM as Parent Company and Surviving Corporation

VI. Other Matters

VII. Adjournment

Stockholders of record as of 08 August 2018 shall be entitled to vote at this meeting. Stockholders are requested to bring this Notice and present valid identification cards with picture upon registration for verification purpose. If you cannot personally attend the meeting, you may appoint a proxy to represent you by accomplishing a Proxy form and by submitting the same with the Office of the Corporate Secretary at the above address before the date of the meeting.

The stock and transfer books of the Corporation will not be closed.

02 August 2018, Mandaluyong City, Metro Manila, Philippines.

ATTY. JUFIL E. SIQUIAN
Corporate Secretary

RFM CORPORATION

PROXY

(For Individual Stockholders)

I undersigned stockholder of RFM CORPORATION, do hereby appoint –

_____

as my proxy to represent me and vote all shares registered in my name on the books of the Corporation, and/or such shares as I am authorized to represent and vote in my capacity as administrator, executor or attorney-in-fact, at any and all regular and special meetings of the stockholders of the Corporation and adjournments and postponements thereof, as fully to all intents and purposes as I might do if present and acting in person.

In case of the non-attendance of my proxy above named, I authorized and empower the Chairman of the meeting to exercise fully all rights as my proxy at such meeting.

This proxy revokes and supersedes any proxy or proxies I may have previously executed and shall continue to be valid and effective until such time as the same is revoked or withdrawn by me through notice in writing delivered to the Secretary of the Corporation at RFM Corporate Center, Pioneer cor. Sheridan Sts., Mandaluyong City, at least (5) business days before the scheduled meeting.

This proxy shall be valid for a period of five (5) years from the date of its execution.

I WITNESS WHEREOF, I have hereunto signed these presents this _____ in _____.

_____

STOCKHOLDER

(Signature over Printed Name)

RFM CORPORATION

PROXY

(For Corporate Stockholders)

The undersigned stockholder of RFM CORPORATION, do hereby appoint –

_____

as its proxy to represent it and vote all shares registered in its name on the books of the Corporation, and/or such shares as it is authorized to represent and vote at any and all regular and special meetings of the stockholders of the Corporation and adjournments and postponements thereof, as fully to all intents and purposes as it might do if present and acting in person.

In case of the non-attendance of its proxy above named, it authorizes and empowers the Chairman of the meeting to exercise fully all rights as its proxy at such meeting.

This proxy revokes and supersedes any proxy or proxies it may have previously executed and shall continue to be valid and effective until such time as the same is revoked or withdrawn by it through notice in writing delivered to the Secretary of the Corporation at RFM Corporate Center, Pioneer cor. Sheridan Sts., Mandaluyong City, at least (5) business days before the scheduled meeting.

This proxy shall be valid for a period of five (5) years from the date of its execution.

I WITNESS WHEREOF, I have hereunto signed these presents this _____ in _____.

_____

STOCKHOLDER

By:

_____

(Name & Position)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

Information Statement Pursuant to Section 20
of the Securities Regulation Code

1. Check the appropriate box:



____ Preliminary Information Statement

__X__ Definitive Information Statement

2. Name of Registrant as specified in its charter:

RFM CORPORATION

3. Province, country or other jurisdiction of incorporation or organization:

Mandaluyong City, Philippines

4. SEC Identification Number : **12998**

5. BIR Tax Identification Number : **000-064-134-000**

6. Address of Principal Office : **RFM Corporate Center**
Corner Pioneer and Sheridan Streets
Mandaluyong City, Philippines 1550

7. Registrant's telephone number, including area code: **(632) 6318101**

8. Date, time and place of the meeting of security holders:

07 September 2018 (Special Stockholders' Meeting)
11:00 A.M.
RFM Corporate Center
Corner Pioneer and Sheridan Streets, Mandaluyong City

9. Approximate date on which the Information Statement is first to be sent or given to the security holders:

15 August 2018

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code:

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common	**3,500,403,866** common shares

11. Are any or all of registrant's securities listed in a Stock Exchange?

Philippine Stock Exchange, Inc.	**Common Stock**

WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders

(a)	Date of Meeting:	07 September 2018
	Time of Meeting:	11:00 A.M.
	Place of Meeting:	RFM Corporate Center Corner Pioneer and Sheridan Streets Mandaluyong City
	Mailing Address:	RFM Corporate Center Corner Pioneer and Sheridan Streets Mandaluyong City, Philippines 1550
(b)	Approximate Date of Sending Information Statement to Security Holders:	15 August 2018

Item 2. Dissenters' Right of Appraisal

The appraisal right may be exercised by any stockholder who shall have voted against (1) an amendment to the Articles of Incorporation that changes or restricts the rights of any stockholder or class of shares, or authorizes preferences in any respect superior to the outstanding shares of any class, or extends or shortens the corporate existence; (2) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; or (3) a merger and consolidation; by making a written demand on the Corporation for payment of the fair value of his share(s). The written demand together with the share certificate/s of the withdrawing stockholder must be received by the Corporation within thirty (30) calendar days from the date on which the vote was taken. Failure to make the written demand and/or to surrender the share certificate/s within such period shall be deemed a waiver of the appraisal right.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Corporation, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Corporation within thirty (30) days after such award is made.

No payment shall be made to any withdrawing stockholder unless the Corporation has unrestricted retained earnings in its books to cover such payment.

Upon payment by the Corporation of the agreed or awarded price, the stockholders shall forthwith transfer his shares to the Corporation.

The appraisal right is also available to a dissenting stockholder in case the Corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose as provided in Section 42 of the Corporation Code.

Item 3. Interest of Certain Persons In or Opposition to Matters to be Acted Upon

Each of the incumbent Directors, Nominees for Directors or Officers of the Corporation since the beginning of the last fiscal year or any associate of said persons do not have any substantial interest, direct or indirect, by security holdings, or otherwise, in any matter to be acted upon.

There is no Director who has informed the Corporation, either verbally or in writing, of his intention to oppose any action to be taken by the Corporation at the meeting.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

RFM Corporation will merge various subsidiaries, namely, Interbake Commissary Corporation (ICC), Cabuyao Logistics & Industrial Center, Inc. (CLIC) and Invest Asia Corporation (IAC) unto itself.

Names, Addresses and Telephone Numbers of the Principal Executive Offices of the Constituent Entities to the Proposed Merger

RFM CORPORATION
RFM Corporate Center,
Pioneer corner Sheridan Streets, 1550 Mandaluyong City
Tel No. 6318101

INTERBAKE COMMISSARY CORPORATION
RFM Corporate Center,
Pioneer corner Sheridan Streets, 1550 Mandaluyong City
Tel No. 6318101

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
RFM Corporate Center,
Pioneer corner Sheridan Streets, 1550 Mandaluyong City
Tel No. 6318101

INVEST ASIA CORPORATION
RFM Corporate Center,
Pioneer corner Sheridan Streets, 1550 Mandaluyong City
Tel No. 6318101

Brief Description of the General Nature of the Business Conducted by RFM, ICC, CLIC and IAC

RFM Corporation (Parent Company)

RFM Corporation is a major player in the food and beverage industry in the Philippines, specifically in the processing and manufacture of flour, bread, flour-based products like pasta and cake mixes, sauces, milk and juice drinks, and ice cream.

The Company also operates non-food businesses, which include barging services (Rizal Lighterage Corporation) and leasing of commercial/office spaces (Invest Asia Corporation) that serves the internal requirement of the various operating divisions.

RFM Corporation was incorporated on August 16, 1957 as Republic Flour Mills, Inc. to manufacture flour in the Philippines, a country which does not grow wheat, in order to contribute to the country's greater self-reliance in basic food. From its original business of flour milling, the Company later diversified into poultry and livestock production and areas of food manufacturing that includes flour-based products, margarine, milk & juices, canned and processed meat, ice cream, and bottled mineral water.

At present, RFM Corporation operates two major business segments: (a) Institutional segment, which primarily manufactures and sells flour, bakery and other bakery products to institutional customers; and (b) Consumer segment, that manufactures and sells ice cream, milk and juices, pasta products, and flour and rice-based mixes.

Interbake Commissary Corporation

Interbake Commissary Corporation (ICC) was established in 1998 and is 100%-owned by RFM Corporation and. It has outstanding and issued capital stock of Php83,500,000. It operates a high-speed Bun Production Line. Its first and biggest customer is McDonald's. Interbake supplies the bun requirements to McDonald's over 415 stores in Luzon, as well as the muffin requirements nationwide. Through the years, Interbake has gained an outstanding reputation for delivering world-class quality buns, enabling it to further expand its customer base which now includes 7-11 convenience stores in Luzon. Since 2007, Interbake's bread sales volume has had an average annual increase of 10%. In July 2013, the manufacturing operations of Interbake have been folded in to the parent company as Private Label Manufacturing Division.

Cabuyao Logistics and Industrial Center, Inc.

Cabuyao Logistics and Industrial Center, Inc. (CLIC) was formerly named Bringmenow, Inc., and was later renamed into Cabuyao Meat Processing Corporation (CMPC) in 2005 upon the transfer into it of the meat manufacturing assets. It is 100% owned by RFM Corporation, and has an outstanding and issued capital stock of Php10,000,000. Its primary possession is the processing plant in Cabuyao, Laguna, which produces hotdogs, corned beef, hams, and other meat products under the Swift brand. In October 2012, it sold its trademark "Swift", finished goods and raw material inventories, as well as specific processed meat equipment. In 2013, the Company was renamed Cabuyao Logistics

and Industrial Center, Inc. (CLIC). Due to the discontinuance of the operations of the Parent Company's Meat Division, the use of the Company's operational service areas was also terminated in March 2013. Subsequently, the operations of the Parent Company's Milk and Juice Division were transferred to the Company's premises and facilities in CLIC. When PET line was discontinued its operations, the area where the PET line is located was used to install the Spaghetti Sauce manufacturing lines in 2016.

Invest Asia Corporation

Invest Asia Corporation (IAC), incorporated in 1989 under its former name RFM Equity, Inc., owns the RFM head office building and land where the building is located leases commercial and office spaces to its affiliates and third-party tenants. It has outstanding and issued capital stock of Php324,645,040. RFM Corporation acquired 96% equity interest of Invest Asia and became a subsidiary of the Parent Company on August 2, 2010. Hyland Realty Corporation owns 2%, while Foresight Realty Development Corporation owns 2% of IAC.

Summary of the Material Features of the Proposed Merger

CLIC, ICC and IAC will merge into RFM Corporation. This intended transaction is a so-called "upstream merger" between a parent company and its subsidiaries, in which the former will be issuing shares in exchange for the assets to be transferred by its subsidiaries.

The merger was approved by the Board of Directors during its regular meeting last 25 July 2018 and is seen as desirable and advantageous to the parties and their respective shareholders for the following business reasons:

1. The integration of the administrative facilities of the four (4) corporations will result in economies of scale and efficiency of operations;

2. The consolidation of assets of the four (4) corporations will allow the procurement of financing and credit facilities under more favorable terms; and

3. The merger will make possible the more productive use of the properties of the constituent corporations.

With RFM as the surviving corporation, the subsidiaries shall cease to exist and their legal personalities shall be considered terminated. Upon the effective date of the merger, RFM shall be deemed to have acquired all the assets and assumed all the liabilities of its subsidiaries, and such assets shall be transferred at the net asset value as determined on the basis of the subsidiaries' audited financial statements as of the date nearest the effective date of the merger.

Thereafter, RFM shall become the owners of all the rights, assets, privileges and other properties of the subsidiaries and assume all the debts and liabilities of the latter in the same manner as though RFM itself incurred such liabilities and obligations. Any claim, action or proceedings against the subsidiaries shall be prosecuted by or against RFM.

RFM shall issue **an approximately 150,617,444 common shares** to itself and to the minority shareholders of IAC in exchange for the net assets of ICC, CLIC and IAC. The shares issued by RFM Corporation to itself shall become treasury shares.

The basis of the assets of ICC, IAC, and IAC shall be the carrying value of the assets in the books of ICC, CLIC, and IAC, and increased by the amount of gain, recognized by them, if any.

Dividends in Arrears

There are no dividends in arrears accruing to the stockholders of RFM Corporation.

Comparative History

The operating and financial highlights of RFM, ICC, CLIC and IAC during the last three (3) fiscal years are as follows:

RFM and ICC

(In Thousands, except ratios)	RFM Corporation (Parent Company)			ICC		
	Fiscal Year Ended			Fiscal Year Ended		
	2017	2016	2015	2017	2016	2015
Net sales	7,706,523	8,217,040	8,156,915	136,900	140,935	163,013
Net income (Loss)	959,953	925,324	917,383	(363)	4,008	(741)
Long-term debt (including current portion)						
Book value per share	3.22	2.97	2.84	1.09	1.09	1.04
Cash dividends declared per share	0.05750 0.08576	0.05000 0.07790	0.03087 0.03700			
Earnings (Loss) per share	0.27	0.26	0.26	(0.00)	0.05	(0.01)

RFM and CLIC

(In Thousands, except ratios)	RFM Corporation (Parent Company)			CLIC		
	Fiscal Year Ended			Fiscal Year Ended		
	2017	2016	2015	2017	2016	2015
Net sales	7,706,523	8,217,040	8,156,915	40,775	39,993	12,802
Net income (Loss)	959,953	925,324	917,383	3,145	2,424	(24,693)
Long-term debt (including current portion)						
Book value per share	3.22	2.97	2.84	1.40	1.17	1.15
Cash dividends declared per share	0.05750 0.08576	0.05000 0.07790	0.03087 0.03700			
Earnings (Loss) per share	0.27	0.26	0.26	0.03	0.02	(0.25)

RFM and IAC

(In Pesos, except ratios)	RFM Corporation (Parent Company)			IAC		
	Fiscal Year Ended			Fiscal Year Ended		
	2017	2016	2015	2017	2016	2015
Net sales	7,706,523	8,217,040	8,156,915	33,781	33,859	31,973
Net income (Loss)	959,953	925,324	917,383	6,851	6,726	7,074
Long-term debt (including current portion)						
Book value per share	3.22	2.97	2.84	0.88	0.86	0.84
Cash dividends declared per share	0.05750 0.08576	0.05000 0.07790	0.03087 0.03700			
Earnings (Loss) per share	0.27	0.26	0.26	0.02	0.02	0.02

Regulatory Requirements

Subsequent to the approval by the stockholders in the special meeting called for the purpose, RFM will seek the approval of the Securities and Exchange Commission (SEC) prior to the execution of the merger.

Report, Opinion or Appraisal from an Outside Party Relating to the Merger

There are no reports, opinions or appraisals relating to the merger which have been received from an outside party.

Past, Present or Proposed Material Contracts, Arrangements, Understanding, Relationship, Negotiation, or Transaction During the Past Two Fiscal Years between the Other Person or Its Affiliates andf the Registrant or Its Affiliates such as those Concerning a Merger, Consolidation or Acquisition; A Tender Offer or Other Acquisition of Securities; An Election of Directors; or a Sale or Other Transfer of a Material Amount of Assets

ICC, CLIC and IAC, in their regular conduct of business, has transactions with their parent company, RFM, and the latter's affiliated companies consisting principally of purchase of goods and services, and lease of the plant, property and equipment for manufacturing operations.

As to each class of securities of the registrant or of the other person which is trading on an exchange or with respect to which a market otherwise exists, state the high and low sale prices as of the date, which shall be specified, preceding public announcement of the proposed transaction, or if no such public announcement was made, as of the date, which shall be specified, preceding the day the agreement or resolution with respect to the action was made

RFM shares are traded at the Philippine Stock Exchange (PSE). As of June 30, 2018, the total number of issued and outstanding shares of the Company is 3,495,500,066 common shares.

The following are the high and low prices per common share for each quarter within the last three calendar years and the first and second quarters of 2018:

2018	High	Low
First Quarter	4.88	4.70
Second Quarter	4.74	4.56

2017	High	Low
First Quarter	4.80	4.76
Second Quarter	4.46	4.45
Third Quarter	4.50	4.37
First Quarter	4.98	4.97

2016	High	Low
First Quarter	4.23	4.14
Second Quarter	4.20	4.18
Third Quarter	4.20	4.17
Fourth Quarter	5.10	4.90

2015	High	Low
First Quarter	5.32	5.26
Second Quarter	4.18	4.14
Third Quarter	4.06	3.90
Fourth Quarter	4.01	3.95

All shares of RFM Corporation are listed in the Philippines Stock Exchange. Meanwhile, the shares of ICC, CLIC and IAC are not listed.

The price of RFM Corporation shares as of last trading date – June 29, 2018 was P4.74.

Statement on Principal Accountants

Representatives of the principal accountants for the current year and for the most recently completed fiscal year are expected to be present at the security holders' meeting, and will have the opportunity to make a statement if they desire to do so; and are expected to be available to respond to appropriate questions.

Additional Information Required

(1) Business Overview and Legal Proceedings of RFM and Its Group Including ICC, CLIC and IAC

Item 1 - Business

The RFM Group

RFM Corporation (the "Company") is a major player in the food and beverage industry in the Philippines, specifically in the processing and manufacture of flour, bread, flour-based products like pasta and cake mixes, sauces, milk and juice drinks, and ice cream.

The Company also operates non-food businesses, which include barging services (Rizal Lighterage Corporation) and leasing of commercial/office spaces (Invest Asia Corporation) that serves the internal requirement of the various operating divisions.

History and Business Development

RFM Corporation was incorporated on August 16, 1957 as Republic Flour Mills, Inc. to manufacture flour in the Philippines, a country which does not grow wheat, in order to contribute to the country's greater self-reliance in basic food. From its original business of flour milling, the Company diversified into poultry and livestock production and areas of food manufacturing that includes flour-based products, margarine, milk & juices, canned and processed meat, ice cream, and bottled mineral water.

After RFM established itself in the flour milling business, the Company, in 1963, commissioned new plant facilities to produce cooking oil and margarine. This was then followed by the establishment of a feed mill in 1965 to manufacture poultry and hog feeds, of which key raw materials – bran and pollard – were by-products of the flour operations.

In the early 1971, RFM integrated forward into hog and poultry breeding. It entered into a licensing agreement with Peterson Industries and H & N Layers to breed day-old chicks. The Company, though, divested from the hog operation in 1994, and in the poultry business in 2003 by way of property dividends to its shareholders.

In 1973, the Company signed an exclusive licensing agreement with Swift and Company of Illinois (now Armour Swift & Echrich of the ConAgra Group). This move initiated the entry of RFM into the business of chilled and canned meat processing using the "Swift" brand name. A continuous meat processing plant, the first in the country, was constructed in 1975. The "Swift" brand name was eventually purchased by RFM in 1987, allowing the Company the rights to its exclusive use in the Philippines. The "Swift" brand name is being shared by RFM and Swift Foods, Inc. in their production and sale of processed meat and chicken products, respectively.

From the 1970s to 1980s, RFM concentrated primarily on growing its established core businesses. It also introduced grocery items, such as cake mixes, hotcake mixes, and ingredient mixes during this period.

As RFM began to enter the 1990s, it envisioned itself to become a truly diversified Food Company catering to the Filipino taste. This goal was and continues to be implemented through two approaches: strategic acquisition of Filipino companies with strong local brands, and partnerships with internationally renowned food institutions.

This vision was first manifested in the purchase of Cosmos Bottling Corporation (Cosmos), a Filipino softdrinks company, in 1989, from the Wong Family. Then in 1990, RFM acquired the "Selecta" trademark from the Arce Family. RFM invested in new machinery under a new company, Selecta

Dairy Products, Inc. (Selecta), to mass produce the locally famous ice cream flavors within international health standards. And in 1993, the Company ventured into the production of ready-to-drink (RTD) ultra-heat treated (UHT) milk and juices in tetra-packaged format using the brand names Selecta Moo and Sunkist, respectively.

In 1994, Swift, Selecta, and Cosmos conducted an initial public offering of its shares of stock through the Philippine Stock Exchange.

A year later, in 1995, the Company incorporated RFM Properties and Holdings, Inc. to consolidate its real estate assets as well as to break into the land and housing development business. The company was later renamed Philippine Townships, Inc. In 2008, the company was again renamed to Philtown Properties, Inc.

RFM continued to expand its businesses as it ventured into noodle manufacturing, tuna processing, bakeshop business with the acquisition of the Rolling Pin trademark, food franchising with the use of Little Ceasar's Pizza brand of the USA, and thrift banking under Consumer Bank.

The Asian Financial Crisis of 1997, however, put a halt to the business expansion of RFM. The ensuing economic slowdown, more cutthroat market competition, and the dearth of capital financing weighed heavily on the financial operations of the Company. Furthermore, the US$83.7M bond, which it obtained in 1996, became due in 2001, and its payment forced RFM to sell many of its operating subsidiaries, including Consumer Bank which was sold to Philippine Bank of Communications, and Cosmos which was sold to Coca-Cola Inc. and San Miguel Corporation.

In 2003, the company's common shares from Swift Foods, Inc. were declared as property dividends to its stockholders. Likewise, the company's common shares from Philtown Properties, Inc. (formerly Philippine Townships, Inc.), the property company, were declared as property dividends in tranches in 2008, 2009 and 2012. However, the company remains committed in liquidating its landholdings through the development of middle income housing enclaves. It also builds condominium projects in saleable areas in Fort Bonifacio, Rockwell, and Taft.

The remaining business, nevertheless, gives RFM the foundation to build on. Within the Parent Company, the original business of flour making continues; as well as branded food products such as Swift processed chilled and canned meats like hotdogs, vienna sausage, and corned beef, Sunkist Juices, Selecta Milk, Fiesta Pasta Noodles, White King Hot Cake, Butterfresh Margarine, among others. The ice cream business remains profitable and is presently co-owned with Unilever Philippines, under a new corporate name, Unilever RFM Ice Cream, Inc.

In late 2012, RFM entered into a Trademark and Asset Purchase Agreement with The Pacific Meat Company, Inc. (PMCI). The terms of this agreement includes RFM's sale of the "Swift" brand, together with finished goods and raw material inventories, the goodwill of the business connected with the trademarks used for its canned, pouch flexible heat sterilized, refrigerated, chilled and frozen meat products, and certain machinery and equipment, as well as all product formulations, processes, know-how and other technical information relating to the production of meat products.

Early 2014, RFM purchased the Royal pasta trademark and inventory stocks from Unilever Philippines, Inc. (ULP). The company believes this would allow RFM to tighter its market leadership in the pasta category.

The Group and the Products

Food Businesses

RFM Corporation (Parent Company)

RFM Corporation operates two major business segments:

- Institutional segment, which primarily manufactures and sells flour, bakery and other bakery products to institutional customers; and
- Consumer segment, that manufactures and sells ice cream, milk and juices, pasta products, and flour and rice-based mixes.

See table on sales.

Unilever RFM Ice Cream, Inc. (formerly Selecta Wall's Inc.)

Unilever RFM Ice Cream, Inc. is a joint venture enterprise owned 50%-50% by RFM Corporation and Unilever Philippines, Inc. It is engaged in the business of manufacturing, marketing, distributing and selling, importing and exporting of ice cream, ice cream desserts and ice cream novelties, and similar food products.

Interbake Commissary Corporation

Interbake Commissary Corporation was established in 1998, and operates a high-speed Bun Production Line. Its first and continues to be the biggest customer is McDonald's. Interbake supplies the bun requirements to McDonald's over 415 stores in Luzon, as well as the muffin requirements nationwide. Through the years, Interbake has gained an outstanding reputation for delivering world-class quality buns, enabling it to further expand its customer base which now includes 7-11 convenience stores in Luzon. Since 2007, Interbake's bread sales volume had an average annual increase of 10%. In July 2013, the manufacturing operations of Interbake have been folded in to the parent company as Private Label Manufacturing Division.

RFM Foods Philippines Corporation

Established in 1991 as RFM-Indofood Philippines Corporation, then a joint venture company between RFM Corporation and Indofood of the Salim Group of Indonesia, the company's main product lines were instant noodles of various flavors and packaging. The Company, however, ceased operations in October 2000 due to operating losses. The company has been renamed RFM Foods Philippines Corporation, and remains dormant.

Southstar Bottled Water Company, Inc.

Southstar Bottled Water Company, Inc. (Southstar) was incorporated in 1992 to manufacture and distribute all kinds and classes of bottled water, carbonated water, drinking water, fluoridated water, mineral water, natural water, purified water, spring water, well water, flavored water, as well as bottling equipment, purification equipment, coolers, dispensers, water treatment plants, water bottling plants, bottles, crates, including their accessories, attachments, spare parts and any merchandise of similar nature. Southstar, however, suspended its operations due to sustained operating losses.

Engrain – RFM Pacific, Inc.

Engrain – RFM Pacific Inc. (ERPI) is a joint venture owned 50% - 50% by RFM Corporation and Engrain LLC. It was incorporated in June 2013 to engage in the business of selling, marketing and distributing wholesale enzyme-enhanced flour and products for the Philippines and Asia Pacific market.

FWBC Holdings, Inc.

FWBC Holdings, Inc. is 83.38% owned by RFM Corporation, and organized in 2001 to hold and manage Filipinas Water Bottling Corporation (FWBC). FWBC is involved in the processing and distribution of bottled mountain spring water. FWBC, however, ceased operations in June 2012 due to operating losses.

Non-Food Businesses

RFM Equities, Inc.

RFM Equities Inc. is a holding company that is 100% owned by RFM. It was organized in 1996 to hold and manage RFM Corporation's holdings in two small financial services subsidiaries – Conglomerate Securities and Financing Corporation (CSFC) and RFM Insurance Brokers, Inc. (RIBI). CSFC provides consumer-financing services mainly to the managers and employees of the RFM Group. RIBI meanwhile services the insurance needs mainly of the RFM Group, affiliates and business partners. In January 2014, shares in both CSFC and RIBI had been sold.

Rizal Lighterage Corporation

Rizal Lighterage Corporation (RLC) is a barging company that is 91.62% owned by RFM Corporation. It is primarily engaged in providing lighterage and cargo handling services.

Cabuyao Logistics and Industrial Center, Inc.

Formerly Bringmenow, Inc., the company was renamed into Cabuyao Meat Processing Corporation (CMPC) in 2005 upon the transfer into it of the meat manufacturing assets. This is 100% owned by RFM Corporation, and its primary possession is the processing plant in Cabuyao, Laguna, which produces hotdogs, corned beef, hams, and other meat products under the Swift brand. In October 2012, the Company sold its trademark "Swift", finished goods and raw material inventories, as well as specific processed meat equipment. In 2013, the Company was renamed Cabuyao Logistics and Industrial Center, Inc. (CLIC). Due to the discontinuance of the operations of the Parent Company's Meat Division, the use of the Company's operational service areas was also terminated in March 2013. Subsequently, the operations of the Parent Company's Milk and Juice Division were transferred to the Company's premises and facilities in CLIC. When PET line was discontinued its operations, the area where the PET line is located was used to install the Spaghetti Sauce manufacturing lines in 2016.

WS Holdings, Inc.

WS Holdings, Inc. is 60% owned by RFM Corporation and 40% owned by Unilever Philippines, Inc. It was incorporated and registered with the Securities and Exchange Commission in 1999 to invest in, purchase and own shares of stocks, bonds and other securities of obligations including real estate and personal property of any foreign or domestic corporation, or partnership, or association.

Selecta Wall's Land Corporation

Selecta Wall's Land Corporation was incorporated in 1999 to acquire, own, use, develop and hold for investment all kinds of real estate. RFM Corporation owns 35% of this company.

Invest Asia Corporation

Invest Asia Corporation, which owns the RFM head office building and land where the building is located leases commercial and office spaces to its affiliates and third party tenants. RFM Corporation acquired 96% equity interest of Invest Asia and became a subsidiary of the Parent Company on August 2, 2010.

Contribution to Sales

The Group is primarily engaged in manufacturing, milling, and marketing of food and beverage products. The Group operates its business through the business units identified below. Information as to the relative contribution of the divisions and business to total sales are as follows:

Business Unit	Products	Brands	Contribution to Sales
Institutional Group	Flour Products	Republic Special, Cinderella, Hi-Pro Majestic, Señorita, Pantastic, Altar Bread, Customized Flour, All-Purpose Flour, Cake Flour	26.77%
	Hamburger buns, English muffins		
Consumer Group	Flour-based and rice-based products	White King All-Purpose Flour, White King Hotcake Mixes, White King Native Mixes, White King Baking Mixes, White King Bowl Mixes	72.92%
	Pasta	Fiesta Spaghetti, Fiesta Elbow Macaroni, Fiesta Salad Macaroni, Royal Spaghetti, Royal Elbow Macaroni, Royal Salad Macaroni, Royal Linguine, and Royal Penne	
		Fiesta Sweet Spaghetti Sauce,	

	Spaghetti Sauce	Fiesta 3-Cheese Spaghetti Sauce, Fiesta Filipino Style Spaghetti Sauce, Royal Sweet Style Spaghetti Sauce	
	Spaghetti and Sauce bundles	P119 Fiesta Sweet Spaghettipid, P119 Fiesta 3 Cheese Spaghettipid, P109 Fiesta Filipino Spaghettipid, P59 Sweet Spaghettipid, Fiesta Spartyghetti, Royal Sweet Celebration, and Royal Cheesy Celebration	
	Margarine	Selecta Butterfresh	
	RTD Juice, RTD Tea, RTD Milk and Choco Milk, RTD Flavored Milk and RTD Functional Drinks	Sunkist Premium Juice, Sunkist Tetra Juice Drink, Sunkist Juice Drink Doy Packs, Sunco Green Tea and Lemon Tea (Export only), Selecta Moo, Selecta Fortified Low Fat Choco, Selecta Fortified Low Fat Milk, Selecta Fortified Filled Milk, Selecta Fortified Vanilla Milk, Selecta Full Cream Milk, Choco Yey!	
	Ice Cream products	Selecta Supreme, Selecta Super Thick Classic, Selecta Birthday 3-in-1, Selecta Co-brand, Carte D'or, Magnum, Selecta Cornetto, Selecta Cornetto Disc, Selecta Ice Cream Sticks, Selecta Pinipig, Selecta Buco Delights, Selecta Ice Cream Sandwich, Paddle Pop Watermelon	
Others			0.31%

Domestic and Export Sales

The amounts of revenue, profitability, and identifiable assets attributable to domestic and export operations for 2017, 2016 and 2015 in **Million Pesos** are as follows:

	2017	%	2016	%	2015	%
Sales						
Domestic	12,590	99	12,498	98	11,793	98
Foreign (Export)	154	1	200	2	189	2
	12,744		12,699		11,982	

	2017	2016	2015
Operating income			
Domestic	1,384	1,374	1,151
Foreign (Export)	63	57	48
	1,447	1,431	1,199
Total Assets (All Domestic)	15,919	14,738	13,923

Distribution Methods of the Products or Services

The company engages in different methods of distribution depending on the products/services to meet the needs of customers.

RFM Corporation sells its products through the following accounts: modern trade accounts, distributor accounts, secondary accounts, food service, institutional customers, flour dealers, flour end users and Good Values company store. Modern trade and distributor accounts comprised of hypermarkets, supermarkets, groceries, convenience stores and wholesalers.

Status of New products, Market and Competition

The Food and Beverage industry, in which RFM Corporation belongs to, is generally a fast-growing but competitive consumer industry.

In 2017, RFM remains to be the biggest manufacturer in pasta with 1/3 the market share as it continues to strengthen its two major pasta brands, Fiesta and Royal. RFM maintains its leadership in spaghetti via its value brand Fiesta. Aside from spaghetti, RFM also leads in macaroni in value share through its other brand, Royal. Looking into pasta's complementary category, RFM strengthens its position in the spaghetti sauce market, with Fiesta as it overtakes UFC as the second biggest brand in spaghetti sauce.

Fiesta's strong performance in 2017 is attributed to its continuous push towards growing its spaghetti and sauce bundle - Fiesta Spaghettipid. For only 59 pesos, Fiesta Spaghettipid enables moms to serve an affordable yet a delicious and satisfying spaghetti treat which is good for the entire family as one pack is already good for 8 servings. The campaign was launched with a TVC featuring celebrity endorser Kris Aquino and backed by radio and other promotional activities. Thru Fiesta Spaghettipid, RFM aims to enable more Filipino families to prepare spaghetti more frequently.

Royal, after years of being silent, presented the market with a new look in 2016 and completed the refresh by 2017. The entire range re-launched with a blue packaging to update and differentiate Royal on the shelves. Royal continued to expand the distribution of its new product – Royal Sweet Style Spaghetti Sauce and Royal Sweet Celebration spaghetti and sauce bundle. The brand did not stop there. By the second half of the year it launched its second bundle – Royal Cheesy Celebration. It is a pack of Royal Spaghetti and the new Royal 4 Cheese Spaghetti Sauce, and made available in leading supermarkets and groceries nationwide, for only P129. In addition, by Christmas season of

2017, Royal launched and executed several above-the-line and below-the-line activities such as push selling, merchandising, and a digital campaign.

Aside from pasta, RFM also grew in its flour-based and rice-based mixes under the White King brand. White King continues to support its banner product White King Champ-O-Rado with tactical displays and promos in key supermarkets and groceries nationwide. White King also improved its presence in trade by deploying merchandising materials benefiting not just the bowl mixes, but other product lines such as hotcake mixes, that ended the year on a double digit growth. These excellent products further strengthens RFM's stature as one of the pioneer flour millers in the Philippines.

Fiesta, Royal, and White King brands continue to build equity as they aim to become powerhouse brands through more awareness and trial among current and new consumers.

With the Philippine economic growth, we have seen growth of the middle-class SEC, higher social media and smart phone penetration and more Filipinos becoming more health-conscious. These market factors helped drive growth of RTD Milk. Based on Kantar MAT June 2017, although RTD white milk category has remained flat, RTD chocolate - flavored milk had a volume growth of 6.6%.

The Selecta White Business continued its double-digit growth performance and posted a volume growth of 11%. Selecta Fortified Filled Milk now has 11% volume market share in local white milk market based on Kantar MAT June 2017. It is the fastest growing RTD white milk local brand. The Selecta White Milk key growth drivers are good product taste, competitive pricing (up to 20% lower vs. the leading brand) and especially the savings promotions that encouraged volume purchase of the 1L SKUs of Selecta White Milk brands. Given Selecta white milk's double-digit growth for the past three years, management sees great potential in the Selecta Milk business and will increase its marketing support in 2018 to ensure continued faster brand growth versus category growth.

The Chocolate-flavored RTD milk category has registered growth due to new buyers who bought in bigger baskets based on Kantar MAT June 2017. In July 2017, Selecta Moo introduced its new 150mL Super Chocolate Doy Pouch. Despite market challenges, such as increase in the presence of alternatives like Nestle Yogu and aggressive competitive advertising and consumer promotions, Selecta's chocolate-flavored milk business delivered strong sales performance and posted a volume growth of 23.9%. Having ended its licensing with Ben 10 and PPG, Selecta Moo will release its new packaging in 2018, highlighting the energy it can provide its drinkers. In addition, Selecta Moo will release new promotions to attract new users and highlight its position as the chocolate milk drink that provides affordable nutrition.

The RTD Juice Category has become more competitive in 2017 and is expected to continue this 2018. Coca-Cola's Minute Maid Juice Drink in 200mL Tetra Pak with Orange and Apple flavors entered the market in 2016 and 2017 respectively for only P6.00 SRP thus competing directly with Zest-O's coy pouches. The category will be challenged this 2018 as excise tax on sugar-sweetened beverages has been enacted. This additional tax will increase juice prices that might cause a decline in consumer consumption.

Although 2018 be a challenging year for Sunkist (as well as for other juice players), Sunkist will release various savings promotions to encourage volume purchase, improving sales and highlighting its proposition on being the trusted orange juice brand that provides quality and affordable juice drink.

The Selecta Ice Cream business, under the joint venture with Unilever Philippines, Inc. (ULP) continued to dominate the ice cream category with 75.7% market share. It has launched various ice cream innovations both in the bulk ice cream category (in containers) and the impulse (single-served) category. For the bulk ice cream, it launched several exciting Chocolate and Pinoy flavors for summer and cake-inspired flavors for the Christmas season under the Supreme platform. The Value platform through the launch of Hapi Pack Pints attracted more mass-based buyers into the category. Selecta also launched a new brand Carte D'or Ice Cream to strengthen its presence in the premium segment. On impulse, Selecta Cornetto launched new flavors for both the core and premium line. To increase ice cream out of home consumption, Selecta Ice Cream Sandwich and Paddle Pop Watermelon stick were also launched, driving growth in the Impulse segment.

Competing companies such as Nestle (10.1% market share), Magnolia (7.4% market share), and small brands continue to be aggressive, particularly in the bulk ice cream segment.

For the flour business, the company continues to provide commodity flour to several institutional accounts and flour-based product manufacturers and retailers like biscuits, noodles cakes and bread-makers. There are eleven flour millers in the country, under two trade associations – Philippine Association of Flour Millers (PAFMIL) and Chamber of Philippine Flour Millers, Inc. (Champflour). RFM Corporation is a member of PAFMIL. The Company has about 8% to 9% of total industry volume sales.

Purchases of Raw Materials and Supplies

RFM Corporation sources Raw and Packaging materials both domestic and overseas.

The company imports Wheat from U.S., while Durum Semolina from Australia and Dubai, UAE. Tomato Paste currently sourced in China.
Dairy commodity: Skimmed Milk Powder, Buttermilk Powder and Anhydrous Milk Fat mostly bought from Oceania region, though, open to U.S. and Indian origins. Other imported materials procured from countries such as, but not limited to, Germany, U.S., China, Taiwan, Singapore and Indonesia.

Payment terms vary for each supplier. It ranges from Letter of Credit, Documents against Payment at Sight, Documents against Acceptance, Telegraphic Transfer and other applicable payment terms agreeable to both parties.

Customers

RFM Corporation has a wide range of products that cater to all socio-economic class and all age groups.

Its products are sold through hypermarkets, supermarkets, groceries, convenience stores, drug stores, wholesalers, distributors, institutional customers, food establishments, flour dealers, flour end users and the company store.

RFM Corporation is not dependent on any single or few customers that might have any material adverse effect on its business, except for the processing and exclusive sale of hamburger buns, muffins and hotcake to Golden Arches (McDonald's) and hotdog buns to Philippine Seven Corporation (7-11). These buns account for about 95% of the total sales of Private Label Manufacturing Division of RFM Corporation in 2017 and 93% in 2016.

Related Party Transactions

The Group, in the regular course of business, transact with related parties, which may consist but not limited to the following:

- Purchase of goods and services.
- Lease of the plant, property and equipment for manufacturing operations.
- Distribution, sale and merchandising of RFM Group products.

Trademark, Royalty and Patents

A Trademark License Agreement was entered into with Unilever RFM Ice Cream, Inc. for the exclusive right to use the "Selecta" trademarks in its ice cream products and to manufacture, market, and sell Selecta trademarked products. The agreement shall be co-terminus with the Joint Venture Agreement between RFM Corporation and Unilever Philippines, Inc. The license is free from royalty fee and any similar kind of payment. On December 3, 2008, the Trademark License Agreement was extended for another ten (10) years, or from March 30, 2009 to March 29, 2019.

On 01 January 1995, RFM entered into a Trademark License Agreement (TLA) with Sunkist Growers, Inc. (Sunkist). Under the said agreement, Sunkist grants RFM (a) exclusive right, without the right to sublicense, to use the Sunkist Trademark(s) and related Trade dress approved by Sunkist, in connection with the marketing, distribution and sale of licensed products in the Philippines; (b) exclusive right, without the right to sublicense, to use the Know-How within the Philippines for the production and sale of Licensed Products; (c) the right and privilege to receive technical assistance regarding the implementation of Know-How; and (d) to make available Base Ingredients directly or through authorized Base Ingredients Suppliers to enable RFM to manufacture Licensed Products. For and in consideration of the rights granted above, RFM pays an annual royalty to Sunkist. The Amendment to the TLA was extended for another five (5) years or from 01 January 2005 to 31 December 2009. Another Amendment extending the TLA for another five years was signed by the Parties on 27 January 2010.

On 13 March 2009, Swift Foods, Inc. (SFI) re-assigned and returned to RFM all its rights and interests in the well-known Swift trademark. IPO registration of the mark has been transferred under RFM and a new Certificate of Registration has accordingly been issued to RFM.

In late 2012, RFM entered into a Trademark and Asset Purchase Agreement with The Pacific Meat Company, Inc. (PMCI). The terms of this agreement includes RFM's sale of the "Swift" brand, together with finished goods and raw material inventories, the goodwill of the business connected with the trademarks used for its canned, pouch flexible heat sterilized, refrigerated, chilled and

frozen meat products, and certain machinery and equipment, as well as all product formulations, processes, know-how and other technical information relating to the production of meat products.

In January 2014, the Group acquired the Royal trademark from the Unilever Group for ₱2.1 billion (US$46.0 million).

Need for Any Government Approval of Principal Products and Compliance with Environmental Laws

The Group complies with environmental laws and secures government approval for all its products. The Company has existing permits from various government agencies that include the Bureau of Food and Drug (BFAD) and the City Environment and Natural Resources Office (CENRO). The Company also complies with the requirements of Laguna Lake Development Authority (LLDA) for environmental sanitation purposes.

The Company believes that it has complied with all applicable environmental laws and regulations, and incurred about P256, 158 and P322, 779 during the years 2017 and 2016, respectively, for payment of annual permits and fees.

The Group has no knowledge of recent or impending legislation, the implementation of which can result in a material adverse effect on the business or financial condition.

Research and Development Activities

The Company invests in Research and Development (R&D) which is necessary for corporate viability. R&D activities focus on customer and consumer satisfaction through innovation via new product development and/or improvement, in new or existing categories via line extensions and formulation review. The development process starts from idea generation/brainstorming that leads to prototype development. Market research activities such as focus group discussions and product tests are done to ensure we are guided by consumer insights and needs. Product standards and specifications are then established including process parameters, equipment/line efficiencies, packaging studies and shelf-life tests. Every product launched in the market had undergone stringent quality control checks to ensure sensory acceptability, food safety and stability.

Aside from Product development, Packaging also plays a critical role in ensuring safety of our products, hence, the company hired full-time Packaging Engineers to handle testing of various materials suitable for each product type. Stability tests and shelf-life studies as well as transit tests are part of the total development process. Furthermore, process audits are done to ensure that set standards are strictly being followed, aside from making process improvements for better efficiency.

The Innovation Team, composed of R&D, Marketing and Operations group constantly meet to check project status and monitor deliverables and timelines to ensure flawless execution of new product launches.
We are constantly updated on trends and new technologies to keep us ahead of competition.

The Team conducts regular trade checks for stocks availability and maintain freshness policy.

With reference to regulatory requirements, we have designated personnel doing transactions with the Food and Drug Administration (FDA) to comply with all market requirements, both for local and export markets.

The Company spent about P7.1 million and P6.9 million in 2017 and 2016 respectively, for research and development.

Employees

As of December 31, 2017, the Company and its subsidiaries had approximately 490 employees, of which 11 are executives, 46 managers and 123 supervisory staff and 310 were non-supervisory staff. The Company does not anticipate any significant increase in the number of its employees in year 2018.

About 11% of the total employees of the Company and its subsidiaries are members of various labor unions. The Company and its subsidiaries have collective bargaining agreements with these unions.

The Company believes that its relationship with its employees is generally good. The Company has not recently experienced any material interruption of operations due to labor disagreements. Labor-Management Councils (LCMs) regularly meet to discuss and resolve work-place issues and production matters.

The employees are covered by retirement plans per division. The plans are trusteed, noncontributory defined benefit pension plan covering substantially all permanent employees of the Company. The Company has no stock option plan.

Working Capital

The Company funds its working capital requirements through internally generated funds and from bank borrowings. The working capital finances the purchase of raw materials, inventory, salaries, administrative expenses, tax payments, and sales receivables until such sales receivables are converted into cash.

Major Business Risks

Like any other business, risks are always considered in the ability or inability to achieve the business objectives and execute strategy effectively. RFM Corporation and its subsidiaries perceive the following business risks:

Financial Risk Management Objectives and Policies

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, AFS financial assets, short term investments, accounts receivable, accounts payable and accrued liabilities and advances to and from related parties. The main purpose of these financial instruments includes raising funds for the Group's operations and managing identified financial risks.

The Group has various other financial assets and financial liabilities such as other current receivables, other current assets and customers' deposits which arise directly from its operations. The main risk arising from the use of financial instruments is credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk

Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top 25% of the industry, and/or those which provide the Group with long-term loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk.

The credit quality of financial assets is managed by the Group using internal credit ratings. Credit quality of cash in banks and cash equivalents and AFS financial assets are based on the nature of the counterparty and the Group's internal rating system.

Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Group if there are no predetermined defined due dates. All other financial assets that are neither past due or impaired are classified as "Good" accounts.

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising fund to meet commitments from financial instruments.

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary. Working capital requirements, on the other hand, are adequately addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's short-term and long-term debt obligations.

Management is tasked to minimize interest rate risk by having a mix of variable and fixed interest rates on its loans. Presently, the Group's short-term and long-term debts and obligations are market-determined, with the long-term debts and obligations interest rates based on PDST-F-1 plus a certain spread.

There is no other impact on the Group's equity other than those affecting the statement of income.

URICI is not expecting significant exposures to interest rate risk considering the short term maturities of its bank loans. There is no impact on the Groups equity other than those affecting the statement of income.

Foreign exchange risk

The Group's exposure to foreign exchange risk results from the Parent Company and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2017 and 2016.

Market risks

Market risks stems from new and/or existing re-launched products and/or new packaging at low prices being introduced in the market place by competitors. To address these competitive pressures, the Company continues to develop new products in innovative packaging formats to keep a hold on its consumers and increase market share. The strategy requires significant resources for market research, product development, and marketing and promotions. Attendant risks are inventory overstocks, spoilage, and warehousing cost if the new product launched in the market fails to take off. To manage these risks the Company has established a system where success indicators in the target market are closely being monitored and supported by effective supply chain management.

Technological changes

RFM Corporation has been in the flour manufacturing for several decades, and its operating mills are older than many of its competitors which have more modern equipment and, thus, better rated operating yields. To meet these challenges, the Company continues to provide sufficient repairs and maintenance on its equipment and continually upgrades sections of its facilities to remain at par with the modern machineries. Recent installations are a Buhler blending system which allowed for more efficiency in product mixing and customization; and a Buhler carousel packing and weighing system provides very accurate weighing of flour in bags. Likewise, starting 2017, the Flour group is currently undertaking the upgrade of the two old mills to improve efficiency and yield. In addition, the Company spends in research and development, particularly in the areas of process engineering and wheat mixtures to produce higher flour yields.

In 2008, the Company invested in a new Buhler C-line Pasta Machine to service its growing market in the spaghetti noodles, under the Fiesta brand. The machine incorporates the patented Polymatik Extrusion Technology, which is presently one of the most advanced in raw material mixing processes, and produces pasta that is firmer, brighter, and with excellent heat tolerance. Further expanding the capacity of the pasta line, the company invested and installed the Pasta Line 3 in 2014. This is to support the growing volume of the Pasta business.

Improvements, upgrades, and regular maintenance and repairs of its Aseptic Production Line allow the Milk and Juice Division to produce good quality ready-to-drink milk and chocolate-flavored milk. Later part of 2016, a new manufacturing line in Stand-Up pouch format for milk was installed, this is to provide new package format for milk in the market. When PET line was discontinued its operations as part of the rationalizing RFM products in the basis of its profitability contributions to the total business, the area where the PET line is located was used to install the Spaghetti Sauce manufacturing lines last 2016. Sauce line capacity has been expanded this 2017 by adding more lines to support the growing market volume.

Technological advances in manufacturing sector contributed to hectic product competition in the market, RFM recognizes the need to update its technology for a more reliable quality and higher productivity. In 2011 and 2012, the Milk and Juice Division invested in improving and replacing its line instrumentation system which resulted to a fast and more accurate product quality monitoring which ensures that every package conforms to the quality standards. In 2013, the Milk and Juice Division production line was transferred to our Laguna factory compound upgrading it production processes through major overhauling of the machineries and installation of new and more efficient utilities. The production facility was rebuilt and upgraded to further improve compliance to the requirements of the Good Manufacturing Practices. The company invested P150 Million to this transfer and upgrading. On 2017, the major sterilizing equipment for Milk has been replaced with latest equipment which is designed for higher reliability of milk processing.

Collaboration with technical experts in the field of food science and technology as well as manufacturing has been extended to foreign and local business partners to be updated in the latest food trends, equipment and raw materials sourcing. It has its sources of technology information via attendance to seminars, conferences, conventions, journal subscription and internet access to further enhance its research and development skills and manufacturing processes.

Labor

Like other firms in the food and beverage industry, the Company also partakes of the usual risks of labor unrest and strikes.

On 05 January 2017, the Company was impleaded as one of the respondents in a complaint filed before the National Labor Relations Commissions (NLRC), NCR, and Quezon City by eight (8) flour stackers. These workers were employees of two (2) service contractors of the Company, SEAA Manpower Services and JDM Manpower Services, and were deployed on separate occasions to RFM's Flour Division. The parties reached a compromise settlement on 20 January 2017 but without admission of liability on the part of the Company, thereby terminating and closing the said case.

Sometime in January 2017, some officers of the Company were criminally charged with alleged violations of Republic Act No. 6727, otherwise known as the Wage Rationalization Act at the Mandaluyong City prosecution office. The complainant, Mr. Albert P. Arceo, is a former contractor of the Company. He averred that the Company failed to give the mandatory wage increases under DOLE Wage Order Nos. NCR-6 to NCR-11 to his own workers who were previously deployed to the Company. Said complaint was dismissed in a Resolution dated 7 August 2017. The subsequent Motion for Reconsideration filed by the complainant was denied on 18 October 2017.

On 14 March 2017, the Company was again impleaded in a complaint filed before the NLRC NCR, Quezon City by a certain Christopher G. Lipata who was deployed by his employer, Union Services Cooperative, to RFM as a merchandiser. The complainant claimed that he was illegally dismissed and demanded payment of his separation pay, among others. But in a Decision dated 08 September 2017, the Labor Arbiter held that there was no illegal dismissal and therefore he was not entitled to separation pay and his other claims. The parties were however, directed to pay his unpaid Service Incentive Leave and reimburse some unauthorized deductions in the total amount of Pesos: Five Thousand Six Hundred Twelve and 10/100 (Php5, 612.10).

Item 2 – Properties

RFM Corporation owns a flour milling plant with a daily rated capacity of 930 metric tons per day, and is located in Barangay Pineda, Pasig City. A pasta plant with a rated capacity of 3,000 kgs per hour per spaghetti line (2 lines) and 2,450 kgs per hour for macaroni line (1 line) is also located at RFM Pioneer Plant, Barangay Pineda, Pasig City. A sauce lines (3 lines) located in Cabuyao, Laguna with a rated capacity of 13,579 kilos per day. A milk and juice plant is located in Cabuyao, Laguna, and has a rated capacity of 9.7 million packs per month. The milk and juice Tetra plant currently has five (5) production lines, of which four (4) are owned. Lines are running at 18 hours operation per line for 25 days.

Invest Asia Corporation, a 96% owned subsidiary, owns the RFM head office building and land the building is built on.

In accordance with various loan agreements, the Company and its subsidiaries are restricted from performing certain corporate acts without the prior approval of the creditors, the more significant of which relate to entering into a corporate merger or consolidation, acting as guarantor or surety of obligation and acquiring treasury stocks. The Company and its subsidiaries are also required to maintain certain financial ratios. As of December 31, 2017, the Company, including its subsidiaries are in compliance with terms and conditions of these agreements.

A. Institutional Division

Description	LOCATION	CONDITION
Land – 32,937 sq. m.	Pineda, Pasig City	
Flour Mills Plant/Building/Silos/ Warehouse	Pineda, Pasig City	In good condition
Flour Mills-Furniture & Office Equipment	Pineda, Pasig City	In good condition
Flour Mills - Machinery and Equipment	Pineda, Pasig City	In good condition
Bun Line	Fairlane, Pasig City	In good condition
Muffin Line	Fairlane, Pasig City	In good condition
Spice Mix Building	Fairlane, Pasig City	In good working condition
Warehouse Loading bay	Fairlane, Pasig City	In good working condition
Spaghetti Sauce Line	Cabuyao, Laguna	In good working condition

B. Consumer Division

Description	LOCATION	CONDITION
Pasta Plant/Office/Conference Room/Die Washing Room	Pineda, Pasig City	In good condition
Pasta Plant – Furniture & Office Equipment	Pineda, Pasig City	In good condition
Pasta Plant – Long goods line	Pineda, Pasig City	In good condition
Pasta Plant – Long goods line	Pineda, Pasig City	In good condition
Pasta Plant – Short goods line	Pineda, Pasig City	In good condition
Pasta Plant – RM/PM Warehouse	Pineda, Pasig City	In good condition
Pioneer CDC Warehouse	Pineda, Pasig City	In good condition

Owned Properties

Description	LOCATION	CONDITION
Milk & Juices Tetra Machines	Cabuyao Laguna (transferred from Manggahan, Pasig City)	In good condition
Pioneer Business Park Building	Fairlane, Pasig City	Two (2) storey Building

C. Cabuyao Logistics and Industrial Center, Inc.

Description	LOCATION	CONDITION
Land & Improvements	Cabuyao, Laguna	In good working condition
Building & Improvements	Cabuyao, Laguna	In good working condition
Machinery & Equipment	Cabuyao, Laguna	In good working condition

D. Invest Asia Corporation

RFM Building	Corner Pioneer & Sheridan Streets, Mandaluyong City	Eight (8)-storey building with Penthouse

Item 3 – Legal Proceedings

The Company is subject to lawsuits and legal actions in the ordinary course of business. However, the Company or any of its subsidiaries is not currently involved in any material pending litigation or legal proceeding that could be expected to have a material adverse effect on the Company's financial position or its result of operations.

Moreover, during the past five (5) years up to 30 June 2018, **none** of the Company's or any of its subdiaries' directors or executive officers were involved in any legal proceedings that are material to an evaluation of their ability or integrity, such as:

(a) Any bankcruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankcruptcy or within two years prior to that time;

(b) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

(d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities & Exchange Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

(2) Market Price, Dividends and Principal Stockholders of RFM

Market Information

RFM shares are traded at the Philippine Stock Exchange (PSE). As of June 30, 2018, the total number of issued and outstanding shares of the Company is 3,495,500,066 common shares.

The following are the high and low prices per common share for each quarter within the last three (3) calendar years and the first and second quarters of 2018:

2018	High	Low
First Quarter	4.88	4.70
Second Quarter	4.74	4.56

2017	High	Low
First Quarter	4.80	4.76
Second Quarter	4.46	4.45
Third Quarter	4.50	4.37
First Quarter	4.98	4.97

2016	High	Low
First Quarter	4.23	4.14
Second Quarter	4.20	4.18
Third Quarter	4.20	4.17
Fourth Quarter	5.10	4.90

2015	High	Low
First Quarter	5.32	5.26
Second Quarter	4.18	4.14
Third Quarter	4.06	3.90
Fourth Quarter	4.01	3.95

All shares of RFM Corporation are listed in the Philippines Stock Exchange.

The price of RFM shares as of last trading date – June 29, 2018 was P4.74.

Holders

As of June 30, 2018, there are a total of 3,165 shareholders of RFM common stock. Filipinos owned 2,630,461,449 common shares or 75.25% while the foreigners owned 865,038,617 common shares or 24.75%.

Below are the Top 20 stockholders of common shares as of June 30, 2018:

Name	No. of shares held	% to Total
1. PCD Nominee Corporation (Foreign)	864,778,053	24.71
2. Horizons Realty, Inc.	646,078,738	18.46
3. Triple Eight Holdings, Inc.	639,266,218	18.26
4. BJS Development Corporation	311,210,184	8.89
5. PCD Nominee Corporation (Filipino)	130,681,393	3.74
6. FEATI University	112,011,350	3.20
7. Triple Eight Holdings, Inc.	105,890,978	3.03
8. RPMC Resources, Inc.	105,037,214	3.00
9. Renaissance Property Management Corporation	96,945,752	2.77
10. Chilco Holdings, Inc.	72,748,950	2.08
11. Concepcion Industries, Inc.	71,384,424	2.04
12. Select Two Incorporated	49,499,612	1.41
13. S & A Industrial Corporation	41,308,360	1.18
14. Republic Commodities Corporation	33,115,616	0.95
15. Macric Incorporated	23,302,412	0.67
16. Lace Express Inc.	23,278,716	0.67
17. Monaco Express Corporation	23,278,552	0.67
18. Sole Luna, Inc.	22,305,308	0.64
19. Foresight Realty Development Corporation	19,215,194	0.55
20. Arcon Group Holdings	11,919,518	0.34

As previously mentioned, and for purposes of the proposed merger, RFM shall issue **an approximately 150,617,444 common shares** to itself and to the minority shareholders of IAC in exchange for the net assets of ICC, CLIC and IAC. The shares issued by RFM Corporation to itself shall become treasury shares.

Dividends

(a) Dividend per Share

On February 27, 2015 the BOD approved the declaration of ₱0.037000 cash dividend per share or a total of ₱129.51 million to its stockholders. The dividends were paid on April 13, 2015.

On October 1, 2015 the BOD approved the declaration of ₱0.030876 cash dividend per share or a total of ₱108,08 million to its stockholders. The dividends were paid on November 10, 2015.

On February 24, 2016, the BOD approved the declaration of ₱0.0779 cash dividend per share or a total of a total of ₱270.50 million to its stockholders. The dividends were paid on March 23, 2016.

On August 24, 2016, the BOD approved the declaration of ₱0.05 special cash dividend per share or a total of a total of ₱181 million to its stockholders. The dividends were paid on October 4, 2016.

On January 31, 2017, the BOD approved the declaration of ₱0.08576 cash dividend per share or a total of a total of ₱300 million to its stockholders. The dividends were paid on March 10, 2017.

On September 27, 2017, the BOD approved the declaration of ₱0.0575 regular cash dividend per share or a total of a total of ₱200 million to its stockholders. The dividends were paid on November 8, 2017.

(b) Dividends Restriction

The Parent Company's retained earnings as of December 31, 2017 is restricted to the extent of the amount of the undistributed equity in net earnings of an associate included in its retained earnings amounting to ₱277.09 million. These will only be available for declaration as dividends when these are actually received.

The long-term loan agreements entered into by RFM Corporation with its creditors allows the Company to declare and pay cash dividends upon compliance with the required current ratio, debt-to-equity ratio and debt service coverage ratio.

(3) Financial Statements of ICC, CLIC and IAC for the Last Three (3) Years

See attached Annexes "A", "B' and "C".

(4) Management's Discussion and Analysis (MD & A) of Plan of Operations of RFM, ICC, CLIC and IAC

RFM CORPORATION (PARENT COMPANY)

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of RFM Corporation and its Subsidiaries for the period December 31, 2017. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2017.

All necessary adjustments to present the Company's consolidated financial position as of December 31, 2017 and 2016 and the results of operations and cash flow for the years then ended have been made.

Analysis of Results of Operations

YTD June 2018 vs. YTD June 2017

RFM Corporation reported as 12% growth of revenues for the first six months of 2018 for the Company which resulted in a 3% rise in net income.

Sales of the food and beverage company for the period grew from P5.7 billion to P6.3 billion pushing the company's net income of P525 million from P508 million. The Company posted topline growth in most businesses including ice cream, flour, pasta, milk and private label.

First half revenues of the ice cream category leader Selecta grew 11% year on year while institutional sales including the bakery business expanded with an 8% increase.

The company's revenue from other flagship brands – Fiesta pasta, Royal pasta, White King mixes and Selecta Milk – also posted a strong 17% expansion for the six-month period.

Second Quarter 2018 vs. Second Quarter 2017

Group net income reached P314 million for the second quarter of 2018, higher by 1% over the same period last year on the back of P3.16 billion revenues, up 13% over the revenues posted for the same period last year.

The key financial performance indicators of the Company for the six-month period ended June 30, 2018 as compared to the same period in 2017, as well as the second quarter of 2018 as compared with the second quarter of 2017, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**		**For the Six-Month Period Ended**	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Net Revenues	**₱3,504**	₱3,100	**₱6,312**	₱5,654
Net Operating Margin	**444**	422	**722**	697
Net Income (Loss)	**314**	310	**525**	508

EBITDA	**547**	518	**927**	887
Current Ratio	**1.41**	1.57	**1.41**	1.57

**Except current ratio*

1. Net Revenues

   This is the barometer of the general demand for the Company's products, reflecting their market acceptability vis-à-vis competition particularly in terms of quality, pricing, and image and perception, as well as availability of the products at the point of purchase market locations. This is of primary importance, and is regularly being monitored for appropriate action and/or improvement.

2. Net Operating Margin

   This shows the financial profitability of the primary products of the Company, after deducting the expenses related to their manufacture, distribution, and sale, as well as the general administrative costs in running the business.

3. Net Income

   This shows the over-all financial profitability of the Company, including the sale of primary and non-primary products and all other assets, after deducting all costs and expenses, interest expenses on debts and interest income on investments, as well as equity in net earnings or losses of associates.

4. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

   This is a general yet reasonable representation of the cash generated by the Company from its current business operations that can then be made available for payment of loan interests, loan principal amortization, and taxes; and any further amount in excess becomes the Company's cash profit.

5. Current Ratio

   This determines the Company's ability to meet its currently maturing obligations using its current resources.

Analysis of Financial Condition and Balance Sheet Accounts

As of June 30, 2018, the Group's Total Assets decreased slightly to P15.7 Billion compared to December 31, 2017 of P15.9 Billion primarily due to lower trade receivables.

The Group has a current ratio of 1.41 and 1.57 as of June 30, 2108 and December 31, 2017, respectively.

Year ended December 31, 2017 vs. 2016

Management Report on Operations

Food and Beverage Company RFM Corporation posted revenue of Php12.74 billion which is 0.4% higher compared to last year's revenue of Php12.69 billion and 2.3% higher without the effect of discontinued sales of Third party (DOLE) in 2016. Resulting net income for 2017 is Php1.045 billion or a growth of 4.5% vs last year. The company has improved its income margin from 7.88% in 2016 to 8.20% in 2017.

RFM's profitability was driven by its branded consumer products focusing its efforts the on higher-margin core businesses. The company remains bullish on the market leadership strength of its core brands Fiesta, Royal and Selecta.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2017, the Group's total assets increased from last year's P14.74 billion to P15.92 billion due to higher long term investment amounting to about P1billion. The total liabilities slightly increased from last year's P4.6 billion to P4.8 billion due to higher loans and income tax payable as an effect of higher operating income.

Year ended December 31, 2016 vs. 2015

Management Report on Operations

Food and beverage company RFM Corporation finished the year 2016 with P1 billion net income, or a 10% income growth over the previous year's P905 Million net income.

RFM's profitability was driven by its branded consumer products focusing its efforts the on higher-margin core businesses. The company remains bullish on the market leadership strength of its core brands Selecta, Fiesta, and Royal.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2017, the Group's total assets increased from last year's P13.92 billion to P14.77 billion due to higher cash placements.

The total liabilities increased from last year's P4.3 billion to P4.6 billion due to higher tax payable as an effect of higher operating income.

Key Performance Indicators

For the full fiscal years 2017, 2016 & 2015 the Company's and majority-owned subsidiaries' top five (5) key performance indicators are as follows:

In Millions	**December 2017**	December 2016	December 2015
Revenues	**12,744**	12,699	11,982
Operating Margin	**1,447**	1,431	1,199
Net Income	**1,045**	1,000	905
EBITDA	**1,836**	1,809	1,571
Current Ratio	**1.48**	1.61	1.55

(a) Revenue Growth

These indicate external performance of the Company and its subsidiaries in relation to the movement of consumer demand and the competitors' action to the market behavior. These also express market acceptability and room for development and innovations. These are being monitored and compared as a basis for further study and development.

(b) Operating Margin

This shows the result after operating expenses have been deducted. Operating expenses are examined, checked and traced for major expenses. These are being analyzed and compared to budget, and previous years, to ensure prudence and discipline in spending behind marketing and selling activities.

(c) Net Income

This represents the outcome or results of operations. This measures the over-all performance of the team, the consequence of all the contributory factors affecting supply, demand, utilization and decisions.

(d) EBITDA

This measures the Company's ability to generate cash from operation by adding back non-cash expenses (i.e. depreciation and amortization expense) to earnings before interest and tax.

(e) Current Ratio

This determines the company's ability to meet its maturing obligations using its current resources. It indicates the possible tolerable shrinkage in current resources without threat to the claims of current creditors.

Causes for Any Material Changes from Period to Period of FS, which shall include vertical and horizontal analyses of any material item

Please refer to the discussions under Results of Operations and Financial Position for the year ended December 31, 2017 vs. 2016, year ended December 31, 2016 vs. 2015 and year ended December 31, 2015 vs. 2014.

The Company is not aware of the following:

(i) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

(ii) All material off-balance sheet transaction, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

Seasonal Aspects that has Material Effect on the FS

There is no material effect with the seasonal aspect of certain raw materials specifically wheat on the financial statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC. (CLIC)

Year ended December 31, 2017 vs. 2016

Management Report on Operations

Revenue for the year increased by 2% compared to the same period last year equivalent to PHP41 million. Net Income increased to PHP 3.15 million for the year 2017 from PHP 2.4 million in the same period last year.

Financial Position

CLIC's total assets as of December 31, 2017 decreased slightly to PHP 514.86 million compared to December 31, 2016 of PHP 518.65 million.

Year ended December 31, 2016 vs. 2015

Management Report on Operations

Revenue for the year increased by 212% compared to the same period last year equivalent to PHP 40 million. CLIC improved its net income of PHP 2.4 million versus last year's net loss of PHP 25 million.

Financial Position

CLIC's total assets as of December 31, 2016 decreased to PHP 518.65 million compared to December 31, 2015 of PHP 552.83 million.

Year ended December 31, 2015 vs. 2014

Management Report on Operations

Revenue for the year increased by 6% compared to the same period last year equivalent to PHP 12.8 million. Net loss for the year showed slight improvement at the amount of PHP 24.6 million versus prior year net loss of PHP 25.7 million.

Financial Position

CLIC's total assets as of December 31, 2015 decreased to PHP 552.83 million compared to December 31, 2014 of PHP 587.79 million.

INTERBAKE COMMISSARY CORPORATION (ICC)

Year ended December 31, 2017 vs. 2016

Management Report on Operations

ICC's revenue of PHP 136.90 million is lower by 3% versus same period last year. This resulted in a net loss of PHP 363 thousand which is a major decline from prior year's net income of PHP 4 million.

Financial Position

ICC's total assets as of December 31, 2017 decreased to PHP 145 million compared to December 31, 2016 of PHP 151 million. The Company has a current ratio of .49 as of December 31, 2017 higher than the .32 as of December 31, 2016.

Year ended December 31, 2016 vs. 2015

Management Report on Operations

Net sales for the year decreased by 13.54% compared to the same period last year to PHP 141 million. Net Income increased by PHP 4.7 million, or 641%, to PHP 4.01 million for the year 2016 from PHP (.74) million in the same period last year.

Financial Position

ICC's total assets as of December 31, 2016 decreased to PHP 178 million compared to December 31, 2015 of PHP 252 million primarily due to transfer of Asset to the Parent Company. ICC has a current ratio of .32 as of December 31, 2017 higher than the .23 as of December 31, 2015.

Year ended December 31, 2015 vs. 2014

Management Report on Operations

Net Sales totaled PHP 163 million for the year, a 13.68% decline compared to the same period of last year. Net Income decreased by PHP 1.9 million, or 166%, to PHP (.74) million for the year 2015 from PHP 1.13 million in the same period last year.

Financial Position

ICC's total assets as of December 31, 2015 decreased to PHP 252 million compared to December 31, 2014 of PHP 399 million. The Company has a current ratio of .23 as of December 31, 2015 lower than the .66 as of December 31, 2014.

INVEST ASIA CORPORATION (IAC)

Year ended December 31, 2017 vs. 2016

Management Report on Operations

Revenue decreased to PHP 33.78 million for the year 2017 from PHP 33.86 million in the same period last year. Net Income increased by PHP 125 thousand, or 1.85%, to PHP 6.85 million for the year 2017 from PHP 6.73 million in the same period last year. This increase resulted mainly from lower costs and expenses.

Financial Position

IAC's total assets as of December 31, 2017 increased slightly to PHP 311 million compared to December 31, 2016 of PHP 303 million primarily due to higher cash position. IAC has a current ratio of 3.55 as of December 31, 2017 higher than the 3.07 as of December 31, 2016.

Year ended December 31, 2016 vs. 2015

Management Report on Operations

Revenue increased by 1.89 million or 6%, to PHP 33.86 million for the year 2016 from PHP 31.97 million in the same period last year. Net Income decreased to PHP 6.73 million for the year 2016 from PHP 7.07 million in the same period last year.

Financial Position

IAC's total assets as of December 31, 2016 increased to PHP 303 million compared to December 31, 2015 of PHP 297 million primarily due to higher cash position. The Company has a current ratio of 3.07 as of December 31, 2016 higher than the 2.67 as of December 31, 2015.

Year ended December 31, 2015 vs. 2014

Management Report on Operations

Revenue increased by 1.24 million or 4%, to PHP 31.97 million for the year 2015 from PHP 30.73 million in the same period last year. Net Income increased to PHP 7.07 million for the year 2015 from PHP .32 million in the same period last year.

Financial Position

IAC's total assets as of December 31, 2015 increased to PHP 297 million compared to December 31, 2014 of PHP 290 million primarily due to higher cash position. IAC has a current ratio of 2.67 as of December 31, 2015 higher than the 2.12 as of December 31, 2014.

(5) Directors, Executive Officers, Promoters and Control Persons

RFM CORPORATION (PARENT COMPANY)

Name of Director/ Executive Officer	*Position*	*Age*	*Term as Director*
Jose S. Concepcion Jr.	Chairman of the Board	86	35
Ernest Fritz Server	Vice Chairman	75	29
Jose Ma. A. Concepcion III	Director/President & CEO	60	31
Joseph D. Server, Jr.	Director	77	38
Felicisimo M. Nacino Jr.	Director	66	22
John Marie A. Concepcion	Director/Managing Director & CEO, Ice Cream, and Marketing Adviser, Consumer Group	55	30
Ma.Victoria Herminia C. Young	Director/ SVP & GM, Consumer Group	58	11
Francisco A. Segovia	Director	63	31
Raissa Hechanova-Posadas	Director	57	20
Romeo L. Bernardo	Independent Director	63	15
Lilia R. Bautista	Independent Director	82	11
Atty. Jufil E. Siquian	Corporate Secretary/AVP & Head, Corporate Legal & Labor Relations	40	NA
Enrique Oliver I. Rey-Matias	VP-Finance & Chief Finance Officer and Treasurer/Concurrent General Manager, Flour Group	46	NA
Philip V. Prieto	VP & GM, Invest Asia Corporation	59	NA
Adenawer P. Torres	VP for Sales		
Melchor B. Bacsa	VP & Head of Supply Chain, Consumer Group	56	NA

Tee Jay T. Sumawang	AVP & Head of Information Technology	38	NA
Harry E. Alvarez	AVP & Head of Supply Chain - Logistics	43	
Susan A. Atienza	AVP, Research & Development, Consumer Group	60	NA
Evangeline L. Caballa	AVP and Group Controller	33	NA
Stephen James O. Uy	AVP and Head, SBU-Flour Group	28	NA

As provided in the Company's amended Articles of Incorporation, eleven (11) directors were elected to its Board of Directors during the last Annual Stockholders meeting. The officers, on the other hand, were elected during the Organizational Meeting following the Annual Stockholders' meeting, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been qualified and elected or appointed.

The Company's Board of Directors has committees for Audit, Compensation, Nomination, and Investment. There are two (2) independent directors, one of whom is the Chairman of the Audit Committee and the other heads the Compensation Committee.

The following sets forth certain information as to the directors and executive officers of the Company as of July 25, 2018:

Directors

Jose S. Concepcion, Jr.
86 years old
Filipino

Born on 29 December 1931, has an Associate's degree in Business Administration from De La Salle University and a Bachelor's degree in Agriculture from Araneta University. He is the Chairman of the Board of Directors of RFM Corporation and of Swift Foods, Inc. He also holds the Chairman position in the Asean-Business Advisory Council – Philippines, and East-Asia Business Council – Philippines. He is the Founding Chairman of the National Citizens Movement for Free Elections (NAMFREL), Special Resource Person of UCPB CIIF Finance Development. He is the Chairman of the Board of Directors of Swift Foods, Inc., and Member of the Board of Trustees of TOSP Foundation, Inc. He was previously the Secretary of the Department of Trade and Industry, Chairman of the Board of Investments, member of the Central Bank Monetary Board from 1986-1991, Co-Chairman of Bishops-Businessmen Conference from 1991-1998, and a delegate to the 1971 Constitutional Convention. He served as director of the Corporation from years 1970 to 1985 and was first elected on 3 April 1997 as Chairman of the Board. He is also the Chairman of the Nomination Committee of RFM Corporation.

Ernest Fritz Server
75 years old
Filipino

Born on 08 July 1943, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania. He is the Vice-Chairman of the Board of Directors of RFM Corporation. He is also a Vice-Chairman of Philtown Properties, Inc., and a Director of RFM Equities, Inc. He is the

President of Superior Las Pinas, Inc., Capital Mediaworks, Inc., and Vicinetum Holdings, Inc. He is also a trustee of TOSP Foundation, Inc. He is a member of the Board of Directors of BJS Development Corporation, Phil. Stratbase Consultancy, Inc., ABS-CBN Convergence, Inc., Seacage Industries, Inc., and 818 Aqua Farms, Inc. and Chairman of Westview Properties, Inc. and Arrakis Holding, Inc. He served as President of Philam Fund, Philippine Home Cable Holdings, Inc., Trans-Pacific Properties, Inc. and United Housing Corporation. He served as Chairman of Intercity Properties, Inc. and Vice Chairman of Commercial Bank of Manila, Consumer Bank, Cosmos Bottling, Co. He also served as a Director of Farmingtown, Rizal Lighterage Corporation, RFM Insurance Brokers, Inc. and Psi Technologies. He first became a director of the Corporation on 27 October 1988. He is a member of both the Executive Committee and Compensation Committee of RFM Corporation.

Jose Ma. A. Concepcion III
60 years old
Filipino

Born on 23 June 1958, has a Bachelor's degree in Business Management from Dela Salle University. He is the President and Chief Executive Officer of RFM Corporation. He first became a director of the Corporation on 30 October 1986 and was elected President and Chief Executive Officer in 1989. He previously held similar positions in the various subsidiaries of the company such as RFM Equities, Inc., RFM Insurance Brokers, Inc., Rizal Lighterage Corporation, Cabuyao Logistics & Industrial Center, Inc., Interbake Commissary Corporation, Filipinas Water Bottling Co., Inc., and Invest Asia Corporation. He concurrently holds the position of Chairman of the Board of Unilever RFM Ice Cream, Inc. (URICI) and a Co-Chairman of Integrated Global Low-Temperature, (IGLO) Philippines, Inc., a cold-chain company. He is also a director of Concepcion Industries Inc., the largest air-conditioner and refrigerator manufacturer in the country. In 2016, he was appointed by the President of the Philippines as Presidential Consultant for Entrepreneurship, a position which he also previously held in 2005 until 2010. He was an awardee of the Ten Outstanding Young Men of the Philippines (TOYM) in 1995 and Time Global 100 List of Young Leaders for the New Millennium in 1994. He is associated with major business and industry and various socio-civic associations. He is the founding Trustee of the Philippine Center for Entrepreneurship – Go Negosyo. He also currently chairs the ASEAN Business Advisory Council (ABAC).

Joseph D. Server Jr.
77 years old
Filipino

Born on 08 October 1940, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania in the United States. He is the Chairman of the Board of BJS Development Corporation and the President of JSA & Associates, Inc. and Powerhouse Holdings, Inc. He first became a director of the Corporation on 30 August 1979. He is presently a member of the Audit Committee of RFM Corporation.

Felicisimo M. Nacino, Jr.
66 years old
Filipino

Born on 09 May 1952, has a Bachelor of Arts degree in Economics and a Master's degree in Business Administration, both from the University of the Philippines. He previously served as the Executive Vice-President & Chief Operating Officer of the Corporation and currently serves as Director of RFM Corporation, Unilever RFM Ice Cream Inc., and other companies in the RFM Group. He first became a director of RFM Corporation on 30 March 1995. He is also a member of the Audit and Executive Committees of the Corporation.

John Marie A. Concepcion
55 years old
Filipino

Born on 13 January 1962, has a degree in Business Administration from Seattle University, Washington, U.S.A. He is the Chief Executive Officer & Managing Director of Unilever RFM Ice Cream, Inc. He is also a director and treasurer of Selecta Walls Land Corporation (SWLC). He became a director of the RFM Corporation on 29 October 1987. He also concurrently serves as the Marketing Adviser for the Consumer of Group of RFM Corporation.

Ma. Victoria Herminia C. Young
58 years old
Filipino

Born on 4 August 1959, has a Bachelor of Science Degree in Management and Marketing from Assumption College. She is currently Senior Vice-President and General Manager of Consumer Group handling the R&D, Logistics, White King Division, Milk & Juice Division, Sales Division, Operations Division, Exports Division and subsidiary companies in Cabuyao namely Cabuyao Logistics & Industrial Center and Bevco Philippines. She is a Trustee and President of TOSP Foundation, Inc., Trustee of Soul Mission Org., Ronald McDonald House of Charities and the President of Interbake Commissary Commission. She was appointed as Senior Vice President for the Consumer Group of the Corporation in January 2014.

Francisco A. Segovia
63 years old
Filipino

Born on 17 January 1954, has a Bachelor of Science degree in Business Management from the Ateneo De Manila University. He is President of Segovia & Corporation, Inc., Fritz International Philippines, Inc., Horseworld, Inc., Big A. Aviation Corporation, Intellicon, Inc., Regina Realty/Chilco Holdings, Araneta Institute of Agriculture, Republic Dynamics Corporation and Republic Consolidated Corporation. He is a director of RFM Equities, Inc., and Philtown Properties, Inc. He first became a director of the RFM Corporation on 30 October 1986. He is also a member of the Investment Committee of the Corporation.

Raissa Hechanova-Posadas
57 years old
Filipino

Born on 16 April 1960, has a Master's degree in Business Administration from Imede (now IMD) Lausanne, Switzerland and a degree in Bachelor of Arts major in Applied Economics from De La Salle University. She joined the Corporation as director in April 1997, replacing her father, Mr. Rafael G. Hechanova, former Chairman of the Board of Directors of RFM Corporation. She is a member of the Compensation and Nomination Committees of the Corporation.

Romeo L. Bernardo
63 years old
Filipino

Born on 5 September 1954, Mr. Bernardo received his Bachelor of Science degree in Business Economics from the University of the Philippines (Magna Cum Laude) and a Master's Degree in Development Economics from Williams College, Mass. USA. He has had a varied career in public institutions before he co-founded LBT (with former Energy Secretary Del Lazaro and corporate lawyer Helen Tiu) in 1997. His public sector work spans teaching finance at the state university, a career in the Department of Finance rising to the Undersecretary post , and working in multilateral institutions such as the IMF and the World Bank, based in Washington DC, as well as the ADB in Manila. Presently, he provides business advice as board director in leading listed Philippine companies such as ALFM family of funds (Chairman), Bank of the Philippine Islands, Globe Telecom, Aboitiz Power, National Reinsurance Corporation of the Philippines, Philippine Investment Management (PHINMA) Inc., and Institute of Development and Econometric Analysis, Inc. He also does/has done policy advisory for multilateral and bilateral institutions and he Philippine government in public finance, capital markets, public-private partnership, pension reform, economic governance. He is the lead Philippine partner/advisor to Global Source Partners, a global network of independent analysts. He first became an independent director of RFM Corporation on 25 September 2002. He is presently the Chairman of the Compensation Committee and member of the Audit, Executive and Nomination Committees of RFM Corporation.

Lilia R. Bautista
82 years old
Filipino

Born on 16 August 1935, is an Independent Director of the Company since September 2006. She is also an independent director of Transnational Diversified Group and a professional lecturer at the Philippine Judicial Academy. Recently, she was appointed as Dean of the College of Law of Jose Rizal University. She previously held several positions including as a Member of the Appellate Body of the World Trade Organization, Chairman, Securities and Exchange Commission, Ex-Officio Member, Anti-Money Laundering Council, Senior DTI Undersecretary & Special Trade Negotiator and subsequently acting DTI Secretary. Ex-officio member of the Monetary Board, Chairman of the Board of Investments, National Development Company and other DTI agencies. She was appointed Ambassador to the United Nations and other international agencies in Geneva, Switzerland. She holds an L.L.B., University of the Philippines, LLM, University of Michigan (Dewitt Fellow), M.B.A.,

University of the Philippines, and attended special courses in corporate finance and reorganization, New York University and Investment negotiation course, Georgetown University. She is presently the Chairman of the Audit Committee of RFM Corporation.

Executive Officers

Management is comprised of owner-managers and professional managers. Mr. Jose Maria A. Concepcion III is the President and Chief Executive officer of RFM Corporation, and is also a major shareholder. He joined the Company in 1980 as a route salesman, and occupied positions in sales and marketing before he became President and Chief Executive Officer in 1989.

Enrique Oliver I. Rey-Matias
46 years old
Filipino

Born on 26 December 1971, has a Bachelor of Science degree major in Business Economics from the U.P School of Economics and a Master's degree in Business Management from the Asian Institute of Management. Prior to joining RFM, he worked at the Philippine as well as Southeast and South Asian operations of Liwayway Marketing Corporation (Oishi) as Vice President – Finance. He was appointed as Chief Finance Officer and Treasurer of the Corporation, effective November 2015.

Philip V. Prieto
59 years old
Filipino

Born on 20 August 1958, has a Bachelor's of Arts degree from the University of San Francisco. He is currently the General Manager of Invest Asia Corporation and concurrently the Assistant Treasurer of RFM Corporation. He joined the Corporation in 1995 as the Purchasing Manager of Cosmos Bottling Corporation when this was still owned by RFM Corporation.

Melchor B. Bacsa
56 years old
Filipino

Born on 6 January 1961, a Licensed Chemical Engineer, has a Bachelor of Science Degree in Chemical Engineering from the Adamson University. Prior to joining RFM Corporation, he was the Director for Operations, Branded Consumer Foods Division from 2008 to 2010 at Universal Robina Corporation, where he started his career in 1983. He also held top positions in professional organizations namely Production Management Association of the Philippines (PROMAP) and First Cavite Industrial Estate Association (FCIEA). He joined the company in January 2011 as Vice President and Head of Operations and Exports Division.

Adenawer P. Torres
50 years old
Filipino

Born on June 27, 1967, has a Bachelor of Science in Commerce Degree, Major in Business Management from the University of the Assumption, Pampanga. He has 29 years of extensive experience in Sales, Trade Marketing and Product Distribution in various industries like consumer goods, pharmaceuticals, automotive oil and banking. Prior to joining RFM Corporation for the first time back in 2008, he was the National Key Accounts Manager/ Modern Trade Head from 2005 to 2008 at General Mills Foods, Inc, where he was instrumental in driving the growth in the local market of popular international brands Pillsbury, Green Giant and Betty Crocker. He previously served as a Sales Consultant of Kettle Foods Corporation before rejoining RFM Corporation as Vice President for Sales.

Susan A. Atienza
60 years old
Filipino

Born on 2 May 1957, has a Bachelor of Science Degree in Food Technology from the Philippine Women's University. She was the former Plant Manager at Leslie Corporation from 1979 to 1987 and R&D Manager for Branded Snacks of San Miguel Mills, Inc. from 2003 to 2009. She initially joined RFM Corporation in 1987 until 2001 as R&D Manager of the Bakery Group and re-joined the company in December 2009 as Assistant Vice President - Research & Development of the Consumer Group.

Jufil E. Siquian
40 years old
Filipino

Born on 15 August 1977, has a Bachelor of Arts degree major in Political Science for which he graduated *Cum Laude*, and a Bachelor of Laws degree, both from the University of the Philippines (Diliman). He was admitted to the Philippine Bar in 2003. Prior to joining the Corporation, he was engaged in litigation practice in various law firms based in Makati City. He previously served as chairperson in the election and legal aid committees of the Integrated Bar of the Philippines-Makati City Chapter. He is also the Corporate Secretary of Interbake Commissary Corporation, Southstar Bottled Water Company, Inc., Engrain-RFM Pacific, Inc., RFM Equities, Inc., Rizal Lighterage Corporation, Cabuyao Logistics and Industrial Center, Inc., and Invest Asia Corporation. He joined RFM Corporation in September 2007 and currently its Corporate Secretary and serves as Assistant Vice-President and Head of Corporate Legal and Labor Relations.

Tee Jay T. Sumawang
38 years old
Filipino

Born on July 21, 1980, has a Bachelor of Science degree in Computer and Information Science major in Systems and Software Engineering for which he graduated from the Far Eastern University – East

Asia College in Manila. He started to work in Grand Alphatech International Corporation in 2001 as a Software Engineer and left the company in 2006 as Assistant IT Manager/Software Architect. Prior to joining RFM Corporation, he was with Information Technology Solutions, International as a Senior Technical Specialist (Technical Team Lead). He joined RFM Corporation in February 2007 as Assistant IT Manager and is currently the Assistant Vice President and Head of Information Technology.

Harry E. Alvarez Jr.
43 years old
Filipino

Born on 5 December 1974, has a Bachelor Degree in Industrial Engineering from Mapua Institute of Technology. He has 13 years of well-rounded experience in Planning, Logistics and Total Supply Chain Operations from top food manufacturing companies in the Philippines. Prior to joining RFM Corporation, he was the Supply Chain Manager of San Miguel Mills Incorporated for 4 years. He joined RFM in June 2006 as Supply Chain Manager – ICC Division.

Maria Patrocinio V. Valdez
65 years old
Filipino

Born on 14 November 1952, has a Bachelor of Arts Degree in Business Administration from Maryknoll College. She joined RFM Corporation in 1982 as Personnel Supervisor then became Manager for Compensation Planning and Administration and eventually Assistant Vice-President for Corporate Compensation and Benefits. In 2005, she became a consultant for Executive Compensation and also to the RFM Compensation Committee. Effective 2015, she became the Head of Human Resources Department.

Evangeline L. Caballa
33 years old
Filipino

Born on 04 July 1986, she earned her Bachelor of Science degree in Accountancy at the University of Santo Tomas in May 2007 and passed the CPA licensure exam in the same year. She first joined RFM as General Accounting Supervisor in 2009 up to 2013. She moved to Chevron Holdings Inc. in 2013 and rejoined RFM in 2014 as Corporate Accounting Manager and was promoted to Group Controller in September 2015. Effective January 2018, she was promoted Assistant Vice President of Finance and Controllership Group.

Stephen James O. Uy
28 years old
Filipino

Born on January 3, 1990 and has a Bachelor of Science degree in Management major in Communications Technology Management from Ateneo de Manila University. In 2012, he started his

career in All Asian Countertrade Inc., one of the largest sugar trading companies in the Philippines. He joined RFM Corporation in March 2015 as a Senior Management Trainee and is currently the Assistant Vice President and SBU-Head of the Flour Division.

INTERBAKE COMMISSARY CORPORATION (ICC)

Name of Director/ Executive Officer	*Position*	*Age*	*Term as Director*
Enrique Oliver I. Rey-Matias	Chairman of the Board	46	3
Ma. Victoria Herminia C. Young	President	58	20
Atty. Mitchie Vanessa T. Magomnang	Director	41	2
Evangeline L. Caballa	Director / Treasurer	33	2
Atty. Jufil E. Siquian	Director / Corporate Secretary	40	3
Philip V. Prieto	Assistant Treasurer	59	NA

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC. (CLIC)

Name of Director/ Executive Officer	*Position*	*Age*	*Term as Director*
Enrique Oliver I. Rey-Matias	President / Chairman of the Board	46	3
Ma. Victoria Herminia C. Young	Director	58	3
Melchor B. Bacsa	Director	56	1
Evangeline L. Caballa	Director / Treasurer	33	2
Atty. Jufil E. Siquian	Director / Corporate Secretary	40	3

INVEST ASIA CORPORATION (IAC)

Name of Director/ Executive Officer	*Position*	*Age*	*Term as Director*
Enrique Oliver I. Rey-Matias	President / Chairman of the Board	46	3
Philip V. Prieto	Director / General Manager	59	3
Melchor B. Bacsa	Director	56	3
Evangeline L. Caballa	Director / Treasurer	33	3
Atty. Jufil E. Siquian	Director / Corporate Secretary	40	3

(6) Changes in Disagreements with Accountants on Accounting and Financial Disclosure

None.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

Approval of the Minutes of the previous Annual Stockholders' Meetings.

A. Summary of the Annual Stockholders' Meeting held on 25 July 2018

1. Approval of Previous Minutes

The minutes of the Annual Stockholders' Meeting held on 25 July 2017 was approved and ordered filed.

2. Presentation of the Presidents' Annual Report and Audited Financial Statements

The 2017 Annual Report was noted and appended to the minutes while the 2017 Audited Financial Statements was likewise noted and approved.

3. Ratification of Acts of Management

The minutes of all meetings of the Board of Directors and the acts of the corporate officers for the period between the 2017 Annual Stockholders' Meeting until the 2018 Annual Stockholders' Meeting were ratified, approved and confirmed. Further, all resolutions adopted by the Board of Directors at said meetings were ratified and adopted and all acts and proceedings of all Corporate Officers and Directors since the Annual Meeting were also ratified, approved and confirmed by the stockholders.

4. Election of Directors

The following directors were elected:

Jose S. Concepcion Jr.
Jose Ma. A. Concepcion III
John Marie A. Concepcion
Ma. Herminia Victoria C. Young
Ernest Fritz Server
Joseph D. Server Jr.
Felicisimo M. Nacino, Jr.
Raissa C. Hechanova-Posadas
Francisco A. Segovia
Romeo L. Bernardo as Independent Director
Lilia R. Bautista as Independent Director

5. Appointment of External Auditor

The appointment of External Auditor was delegated to the Board of Directors.

6. Amendment of Article 17.1 of the Corporation's By-Laws

Article 17.1 of the Corporation's By-Laws was amended to reflect the creation of the Corporate Governance Committee pursuant to Article 3, Paragraph (N) (1) of the Corporation's New Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016. The Corporate Governance Committee is tasked to assist the Board of Directors in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to the Nomination Committee.

Item 17. Amendment of Charter, By-laws or Other Documents

In view of the planned upstream merger of the subsidiaries Interbake Commissary Corporation (ICC), Cabuyao Logistics & Industrial Center, Inc. (CLIC) and Invest Asia Corporation (IAC) unto the parent company RFM Corporation as the surviving entity, the Second Article (Primary Purpose) of the Articles of Incorporation of RFM Corporation shall be amended to include the businesses and purposes of the subsidiaries to be merged.

Item 19. Voting Procedures

Pursuant to the By-laws of the Corporation, in all regular and special stockholders' meetings, the presence of shareholders who represent a majority of the outstanding capital stock entitled to vote shall constitute a quorum and all decisions made by the majority shall be final. However, the amendment of the Articles of Incorporation of the Corporation to be carried into effect requires the approval of two-thirds (2/3) of the outstanding common stock of the Corporation.

The method by which the votes of security holders will be counted is in accordance with the general provisions of the Corporation Code of the Philippines. The counting of votes will be done by the Corporate Secretary.

SIGNATURE PAGE

After reasonable inquiry to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City on 07 August 2018.

RFM CORPORATION

By:

ATTY. JUFIL E. SIQUIAN
Corporate Secretary

CERTIFICATION OF INDEPENDENT DIRECTOR

I, LILIA R. BAUTISTA, Filipino, of legal age and a resident of San Juan City after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of RFM Corporation and have been its independent director since 2005
2. I am affiliated with the following companies or organizations;

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
RCBC	Independent Director	2016 - Present
Jose Rizal University	Dean, Law School	2012-Present
St. Martin de Pores Charity Hospital	Trustee	2012- Present
PHILJA Development Center	Trustee	2005-hold-over
CIBI Foundation	Trustee	2016 - Present
Permanent Court of		
Arbitration (Hague)	Member, National Group	2012-Present
Eisenhower Fellows		
Association of the Phils.	Member	2010-Present
Association of Outstanding		
Women in the Nations		
Service (TOWNS)	Member	1982-present
Transnational Diversified		
Group	Independent Director	2006-Present
Phil. Judicial Academy	Professorial Lecturer II	2010-Present
Pamantasan Ng Lungsod		
Ng Maynila	Professor	2016-Present
Lopez Holding, Inc.	Independent Director	Feb 2018-present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of RFM CORPORATION, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/ officer/ substantial shareholder of the above companies, subsidiaries and affiliates.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulation, Code of Corporate Governance and other issuances.

7. I shall inform the Corporate Secretary of RFM Corporation of any charges in the abovementioned information within five days from its occurrence.

Done, this _____ day of 31 JUL 2018, at ~~MANDALUYONG CITY~~.

Lilia R. Bautista
LILIA R. BAUTISTA

Affiant

SUBSCRIBED AND SWORN to before me this ____ day of 31 JUL 2018 by affiant identified by me through his/her Passport No. EC1817562 at Manila Office on August 06, 2014 and expiring on August 05, 2019 who avowed to me under penalty of law to the whole truth of the contents of the foregoing instrument.

Doc. No. 374
Page No. 76;
Book No. 1;
Series of 2018.

MITCHIE VANESSA T. MAGDANANG
Notary Public for and in Mandaluyong City
Notarial Commission No. 0475-18
Commission expires on 31, December 2019
8th Floor, RFM Corporate Center
Pioneer corner Sheridan Sts., Mandaluyong City
PTR No. 3385785, Jan. 05, 2018, Mandaluyong City
IBP Lifetime Member No. 09975
Roll of Attorneys No. 52197

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ROMEO L. BERNARDO**, Filipino, of Legal age, with office address at Unit 16A Belvedere Tower, San Miguel Avenue, Ortigas Center, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:

1) I am a nominee for independent director of **RFM Corporation** (the "Corporation"), and have been its independent director since October 2002 .

2) I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
1. Aboitiz Power Corporation	Independent Director	May 2008
2. ALFM Dollar Bond Fund	Chairman	2003
3. ALFM Euro Bond Fund	Chairman	2005
4. ALFM Growth Fund	Chairman	2007
5. ALFM Money Market Fund	Chairman	2007
6. ALFM Peso Bond Fund	Chairman	2003
7. Bank of Philippine Islands	Independent Director	August 21,2002
8. BPI Capital Corporation	Independent Director	October 23, 2012
9. BPI/MS Insurance Corporation	Independent Director	December 04, 2009
10. BPI-Philam Life Assurance Corporation	Independent Director	April 2006
11. BPI Asset Management and Trust Corporation	Independent Director	February 2017
12. Foundation for Economic Freedom	Vice Chairman	1997
13. GlobalSource Partners	Advisor	July 2007
14. Globe Telecom, Inc.	Director	September 2001
15. Institute for Development & Econometric Analysis, Inc. (IDEA)	Board of Trustee	
16. Lazaro Bernardo Tiu & Associates, Inc.	President & Managing	October 1996
17. Philippine Investment Management, Inc.	Independent Director	August 2005
18. Philippine Stock Index Fund, Inc.	Chairman	2007
19.National Reinsurance Corporation of the Philippines	Independent Director	June 2006.
220. Management Association of the Philippines	Member, Board of Governors	January 2017

1) I possess all the qualifications and none of the disqualifications to serve as an Independent Director of RFM Corporation, as provided for in Section 38 of the Securities Regulation Code, its implementing Rules and Regulations and other SEC issuances.

2) I am not related to any director, officer, or substantial shareholder of the Corporation or any of its subsidiaries and affiliates.

3) To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

4) I am not employed nor affiliated with any government agency or government owned and controlled corporation ("GOCC").

5) I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities and Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

6) I shall inform the Corporate Secretary of RFM Corporation of any changes in the abovementioned information within five days from its occurrence.

SIGNED THIS 31 JUL 2018 AT MANDALUYONG CITY CITY.

ROMEO L. BERNARDO

Affiant

SUBSCRIBED AND SWORN to before me this 31 JUL 2018 at MANDALUYONG CITY, affiant personally appeared before me and exhibited to me his Philippine Passport No. EC5403253 issued at DFA Manila, Philippines on September 20, 2015.

NOTARY PUBLIC

Doc No. 371;
Page No. 76;
Book No. 1;
Series of 2018.

MITCHIE VANESSA T. MAGOMNANG
Notary Public for and in Mandaluyong City
Notarial Commission No. 0475-18
Commission expires on 31, December 2019
8th Floor, RFM Corporate Center
Pioneer corner Sheridan Sts., Mandaluyong City
PTR No. 3389785, Jan. 05, 2018, Mandaluyong City

RFM CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED COMPANY FINANCIAL STATEMENTS

Securities and Exchange Commission
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

The management of RFM Corporation is responsible for the preparation and fair presentation of the consolidated company's financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated company's financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated company's financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting or to cease operations or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated company's financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres Velayo & Co., the independent auditor appointed by the stockholders has audited the consolidated company's financial statements in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed this 12th day of April 2018

Jose S. Concepcion, Jr.
Chairman of the Board

Jose Maria Concepcion III
President & CEO

Enrique Oliver Rey-Matias
VP-Chief Finance Officer

SUBSCRIBED AND SWORN to before me this 03 APR 2018 day of _____ 2018 affiant(s) exhibiting to me his/her Passport as follows:

Names	Passport Number	Date of Issue / Expiry	Place of Issue
Jose S. Concepcion, Jr.	P2514823A	30 Mar 2017/29 Mar 2022	DFA, Manila
Jose Maria Concepcion III	P3744591A	21 July 2017/20 July 2022	DFA, Manila
Enrique Oliver Rey-Matias	P5401351A	20 Dec 2017/ 19 Dec 2022	DFA, NCR East

Doc No. 358
Page No. 73
Book No. I
Series of 2018

JOEY E. SIQUIAN
Notary Public for and in Mandaluyong City
Notarial Commission No. 0288-17
Commission expires on 31, December 2018
8th Floor, RFM Corporate Center
Pioneer corner Sheridan Sts., Mandaluyong City
PTR No. 3388784 Jan. 05, 2018, Mandaluyong City
IBP Member No. 022373
Roll of Attorneys No. 42172

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly notarized, in the City of Mandaluyong on 16 APR 2018.

RFM Corporation

By:

ENRIQUE OLIVER I. REY MATIAS
Vice President – CFO

ATTY. JUFIL E. SIQUIAN
Assistant Vice President& Head
Corporate Legal and Labor Relations

SUBSCRIBED AND SWORN to before me this 16 APR 2018 day of _____, 2018 affiants exhibiting their Passport as follows:

Names	Passport Number	Date of Issue / Expiry	Place of Issue
Jufil E. Siquian	EC2428839	16 Oct 2014/ 15 Oct 2019	DFA, Manila
Enrique Oliver Rey-Matias	P5401351A	20 Dec 2017/ 19 Dec 2022	DFA, NCR East

Doc No. 181
Page No. 38
Book No. 1
Series of 2018

MITCHIE VANESSA T. MAGOMNANG
Notary Public for and in Mandaluyong City
Notarial Commission No. 0475-18
Commission expires on 31, December 2019
8th Floor, RFM Corporate Center
Pioneer corner Sheridan Sts., Mandaluyong City
PTR No. 3389785, Jan. 05, 2018, Mandaluyong City
IBP Lifetime Member No. 09975
Roll of Attorneys No. 53187

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for RFM Corporation for the year ended December 31, 2017.

In discharging the responsibility, I hereby declare that I am the Assistant Vice-President and Group Controller of Finance and Controllership Group of RFM Corporation.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of SyCip, Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

Caballa

EVANGELINE L. CABALLA
Professional Identification Card No. 0122357
Valid until: July 4, 2019

Accreditation No. 5852
Valid Until: July 04, 2021

SUBSCRIBED AND SWORN to before me this 05 APR 2018
affiant exhibited to me his/her Community Tax No. TIN 156 004 935
issued at _____ on _____

NOTARY PUBLIC

Doc No. 148
Page No. 31
Book No. 1
Series of 2018.

MITCHIE VANESSA T. MACOMNANG
Notary Public for and in Mandaluyong City
Notarial Commission No. 0475-18
Commission expires on 31, December 2019
8th Floor, RFM Corporate Center
Pioneer corner Sheridan Sts., Mandaluyong City
PTR No. 3389785, Jan. 05, 2018, Mandaluyong City
IBP Lifetime Member No. 09975
Roll of Attorneys No. 53187

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	0	0	0	0	0	1	2	9	9	8

COMPANY NAME

RFM CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

RFM CORPORATE CENTER, PIONEER CORNER SHERIDAN STREETS, MANDALUYONG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
rfmmail@rfm.com.ph	(02) 631-8101	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,174	7/12	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique Oliver I. Rey-Matias	eoirey-matias@rfm.com.ph	(02) 631-8101	N/A

CONTACT PERSON's ADDRESS

RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City

NOTE 1. In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.
2. All Boxes must be property and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficienies.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
RFM Corporation
RFM Corporate Center
Pioneer corner Sheridan Streets
Mandaluyong City

Opinion

We have audited the consolidated financial statements of RFM Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment testing of trademark with indefinite useful life and goodwill

Under Philippine Financial Reporting Standards, the Group is required to test for impairment the Royal trademark with indefinite useful life and the goodwill from the investment in Unilever-RFM Ice Cream, Inc. on an annual basis. These annual impairment tests are significant to our audit because the carrying value of these intangible assets of ₱2,271.5 million as of December 31, 2017 is material to the consolidated financial statements. In addition, the assessment process requires significant judgment from management because of the use of assumptions and other information, specifically the discount rate, revenue growth rate, royalty savings rate and projected operating expenses and maintenance capital expenditures which are affected by expected future market or economic conditions.

Refer to Notes 2 and 3 to the consolidated financial statements for the relevant accounting policy and discussion of significant judgments and estimates, and Note 13 for the disclosures relating to trademark and goodwill.

Audit Response

We involved our internal specialist in evaluating the management's assessment including the methodologies and the assumptions used in determining the recoverable amounts of the trademark and the goodwill. We compared the key assumptions used such as revenue growth rate, budgeted brand support and projected operating expenses and maintenance capital expenditures against historical performance of the products under the Royal brand and Unilever-RFM Ice Cream, Inc. We also compared the revenue growth rate and the royalty savings rate against relevant published market information. We tested the parameters used in the determination of the discount rate against market data. We likewise reviewed the Group's disclosures about those assumptions to which the outcome of the impairment tests are most sensitive; specifically those that have the most significant effect on the determination of the recoverable amounts of the trademark and the goodwill.

Valuation of land

The Group accounts for its land, where the main office and the various manufacturing plants are located, using the revaluation model in accordance with Philippine Accounting Standards 16, *Property, Plant and Equipment*. As of December 31, 2017, the carrying value of the Group's land amounted to ₱3,117.63 million, representing 20% of the Group's total assets. For the year ended December 31, 2017, the Group recognized a revaluation increment of ₱446.67 million, net of the related deferred tax liability, in other comprehensive income. The valuation of the land requires the assistance of an external appraiser whose calculations involve certain assumptions, such as sales price of similar properties and adjustments to sales price based on internal and external factors. This matter is significant to our audit because it involves significant judgments and estimates.

Refer to Notes 2 and 3 to the consolidated financial statements for the relevant accounting policy and discussion of significant judgments and estimates, and Note 12 for the disclosures relating to fair value of land.

Audit Response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by the Group's external appraiser whose professional qualifications and objectivity were also taken into consideration. We compared the relevant information supporting the sales price of similar properties and the adjustments made to the sales price against real estate industry data. We also reviewed the Group's disclosures with respect to the fair value of the land.

Accounting for the investment in Unilever-RFM Ice Cream, Inc.

The Group has ownership of 50% in Unilever-RFM Ice Cream, Inc. as of December 31, 2017. This investment is accounted for using the proportionate consolidation method as allowed by the Philippine Securities and Exchange Commission. This is a key audit matter because Unilever-RFM Ice Cream, Inc. contributed significantly to the consolidated assets, consolidated liabilities, consolidated revenues and consolidated net income of the Group as of and for the year ended December 31, 2017.

Refer to Note 2 to the consolidated financial statements for the relevant accounting policy, and Note 11 for the disclosures relating to Group's investment in Unilever-RFM Ice Cream, Inc.

Audit Response

We sent instructions to the statutory auditor of Unilever-RFM Ice Cream, Inc. to perform an audit on the financial information of Unilever-RFM Ice Cream, Inc. for the purpose of the Group's consolidated financial statements. These instructions contained a discussion on their scope of work, risk assessment procedures, audit strategy and reporting requirements. We discussed with Unilever-RFM Ice Cream, Inc. statutory auditor about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2017. We reviewed the statutory auditor's working papers and obtained relevant conclusion statements related to their audit procedures.

We obtained the financial information of Unilever-RFM Ice Cream, Inc. from the statutory auditor and recomputed the Group's proportionate share in the assets, liabilities and net income of Unilever-RFM Ice Cream, Inc. as of and for the year ended December 31, 2017. We also reviewed the Group's disclosure with respect to its investment in Unilever-RFM Ice Cream, Inc.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.



If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621336, January 9, 2018, Makati City

April 3, 2018

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱1,513,049**	₱1,496,554
Short-term cash investments (Note 5)	**39,619**	1,121,746
Current portion of held-to-maturity investments (Note 9)	**310,371**	–
Receivables (Notes 6 and 21)	**2,178,571**	2,321,866
Inventories (Note 7)	**1,533,885**	1,169,818
Other current assets (Note 8)	**324,035**	282,205
Total Current Assets	**5,899,530**	6,392,189
Noncurrent Assets		
Available-for-sale financial assets (Note 9)	**4,682**	5,032
Held-to-maturity investments - net of current portion (Note 9)	**693,156**	57,894
Investments in joint venture and associate (Note 10)	**152,245**	153,591
Property, plant and equipment (Note 12):		
At appraised value	**3,117,628**	2,479,531
At cost	**3,303,535**	3,130,408
Intangible assets (Note 13)	**2,271,497**	2,271,503
Deferred income tax assets - net (Note 23)	**143,696**	118,342
Other noncurrent assets (Notes 6, 21 and 24)	**332,780**	130,105
Total Noncurrent Assets	**10,019,219**	8,346,406
TOTAL ASSETS	**₱15,918,749**	₱14,738,595
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 15)	**₱556,500**	₱460,000
Accounts payable and other current liabilities (Notes 14 and 21)	**3,184,249**	3,311,558
Customers' deposits	**18,053**	38,102
Income tax payable	**225,554**	144,834
Total Current Liabilities	**3,984,356**	3,954,494
Noncurrent Liabilities		
Net retirement obligation (Note 22)	**161,671**	175,118
Security deposits	**1,923**	1,692
Deferred income tax liabilities - net (Note 23)	**618,235**	458,242
Total Noncurrent Liabilities	**781,829**	635,052
Total Liabilities	**4,766,185**	4,589,546

Securities and Exchange Commission
Records Management Division
APR 16 2018
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

(Forward)

	December 31	
	2017	2016
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Note 16)	**₱3,500,404**	₱3,500,404
Additional paid-in capital (Note 16)	**2,059,437**	2,057,297
Treasury stock (Note 16)	**(14,327)**	(20,155)
Equity reserve	**(7,075)**	(7,075)
Revaluation increment on land - net (Note 12)	**1,789,684**	1,343,016
Retained earnings (Note 16)	**3,851,762**	3,303,307
	11,179,885	10,176,794
Non-controlling Interests	**(27,321)**	(27,745)
Total Equity	**11,152,564**	10,149,049
TOTAL LIABILITIES AND EQUITY	**₱15,918,749**	₱14,738,595

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Manufacturing	**₱12,702,877**	₱12,655,872	₱11,945,227
Services and others	**40,774**	42,786	36,669
	12,743,651	12,698,658	11,981,896
COST OF SALES AND SERVICES (Note 17)	**(7,561,515)**	(7,422,861)	(7,492,190)
GROSS PROFIT	**5,182,136**	5,275,797	4,489,706
OPERATING EXPENSES			
Selling and marketing (Note 18)	**(2,541,734)**	(2,760,792)	(2,297,506)
General and administrative (Note 19)	**(1,193,559)**	(1,084,170)	(993,357)
OTHER INCOME (CHARGES)			
Interest expense (Note 20)	**(16,273)**	(9,852)	(28,260)
Reversal of impairment loss (impairment loss) on property, plant and equipment (Note 12)	**18,456**	3,432	(21,976)
Interest income (Note 20)	**36,317**	23,411	11,377
Dividend income (Note 9)	**134**	65	–
Other income (charges) - net (Note 10)	**(10,607)**	38,289	31,903
INCOME BEFORE INCOME TAX	**1,474,870**	1,486,180	1,191,887
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**489,599**	481,701	298,249
Deferred	**(59,490)**	4,099	(11,290)
	430,109	485,800	286,959
NET INCOME	**₱1,044,761**	₱1,000,380	₱904,928
Net income (loss) attributable to:			
Equity holders of the Parent Company	**₱1,042,345**	₱1,001,850	₱906,496
Non-controlling interests	**2,416**	(1,470)	(1,568)
	₱1,044,761	₱1,000,380	₱904,928
Basic/Diluted Earnings Per Share (Note 25)	**₱0.30**	₱0.29	₱0.26

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱1,044,761**	₱1,000,380	₱904,928
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit and loss:			
Remeasurement gain (loss) on defined benefit retirement plan (Note 22)	**9,001**	(29,088)	(108,356)
Income tax effect	**(2,700)**	8,726	32,506
Revaluation increment on property, plant and equipment (Note 12)	**638,097**	–	101,241
Income tax effect	**(191,429)**	–	(30,373)
	452,969	(20,362)	(4,982)
TOTAL COMPREHENSIVE INCOME	**₱1,497,730**	₱980,018	₱899,946
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱1,495,314**	₱981,488	₱901,514
Non-controlling interests	**2,416**	(1,470)	(1,568)
	₱1,497,730	₱980,018	₱899,946

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 16)	Additional Paid-in Capital (Note 16)	Treasury Stock (Note 16)	Equity Reserve	Revaluation Increment on Land (Note 12)	Retained Earnings (Note 16)	Subtotal	Non-controlling Interests	Total Equity
BALANCES AT DECEMBER 31, 2014	**₱3,500,404**	**₱2,048,588**	**₱–**	**(₱7,075)**	**₱1,286,346**	**₱2,159,341**	**₱8,987,604**	**(₱20,616)**	**₱8,966,988**
Net income	–	–	–	–	–	906,496	906,496	(1,568)	904,928
Other comprehensive income (loss)	–	–	–	–	70,868	(75,850)	(4,982)	–	(4,982)
Total comprehensive income (loss)	–	–	–	–	70,868	830,646	901,514	(1,568)	899,946
Transfer of portion of revaluation increment on property, plant and equipment realized through disposal	–	–	–	–	(14,198)	14,198	–	–	–
Cash dividends	–	–	–	–	–	(237,593)	(237,593)	(2,078)	(239,671)
BALANCES AT DECEMBER 31, 2015	**3,500,404**	**2,048,588**	**–**	**(7,075)**	**1,343,016**	**2,766,592**	**9,651,525**	**(24,262)**	**9,627,263**
Net income	–	–	–	–	–	1,001,850	1,001,850	(1,470)	1,000,380
Other comprehensive loss	–	–	–	–	–	(20,362)	(20,362)	–	(20,362)
Total comprehensive income (loss)	–	–	–	–	–	981,488	981,488	(1,470)	980,018
Cash dividends	–	–	–	–	–	(444,773)	(444,773)	(2,013)	(446,786)
Purchase of shares into treasury	–	–	(313,679)	–	–	–	(313,679)	–	(313,679)
Sale of treasury shares	–	8,709	293,524	–	–	–	302,233	–	302,233
BALANCES AT DECEMBER 31, 2016	**3,500,404**	**2,057,297**	**(20,155)**	**(7,075)**	**1,343,016**	**3,303,307**	**10,176,794**	**(27,745)**	**10,149,049**
Net income	–	–	–	–	–	1,042,345	1,042,345	2,416	1,044,761
Other comprehensive income	–	–	–	–	446,668	6,301	452,969	–	452,969
Total comprehensive income	–	–	–	–	446,668	1,048,646	1,495,314	2,416	1,497,730
Cash dividends	–	–	–	–	–	(500,191)	(500,191)	(1,992)	(502,183)
Purchase of shares into treasury	–	–	(121,797)	–	–	–	(121,797)	–	(121,797)
Sale of treasury shares	–	2,140	127,625	–	–	–	129,765	–	129,765
BALANCES AT DECEMBER 31, 2017	**₱3,500,404**	**₱2,059,437**	**(₱14,327)**	**(₱7,075)**	**₱1,789,684**	**₱3,851,762**	**₱11,179,885**	**(₱27,321)**	**₱11,152,564**

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,474,870**	₱1,486,180	₱1,191,887
Adjustments for:			
Depreciation and amortization (Notes 12 and 13)	**389,088**	378,476	372,229
Interest income (Note 20)	**(36,317)**	(23,411)	(11,377)
Equity in net earnings of an associate (Note 10)	**(10,934)**	(12,279)	(12,331)
Interest expense (Notes 15 and 20)	**16,273**	9,852	28,260
Loss (gain) on sale of property, plant and equipment (Note 12)	**18,578**	7,941	(79)
Movement in net retirement obligation (Note 22)	**(4,446)**	(6,649)	(64,186)
Provision for (reversal of) impairment loss on property, plant and equipment (Note 12)	**(18,456)**	(3,432)	22,915
Unrealized foreign exchange loss - net	**3,370**	1,450	474
Operating income before working capital changes	**1,832,026**	1,838,128	1,527,792
Decrease (increase) in:			
Receivables	**128,432**	87,806	327,256
Inventories	**(364,067)**	(8,015)	731,886
Other current assets	**(41,830)**	(74,989)	15,394
Increase (decrease) in:			
Accounts payable and other current liabilities	**(115,630)**	126,257	553,979
Customers' deposits	**(20,049)**	(30,160)	(90,861)
Security deposits	**231**	(211)	(4)
Net cash generated from operations	**1,419,113**	1,938,816	3,065,442
Income taxes paid, including creditable withholding taxes	**(408,879)**	(385,020)	(197,383)
Interest paid	**(16,410)**	(8,769)	(32,422)
Interest received	**36,628**	14,286	11,377
Net cash from operating activities	**1,030,452**	1,559,313	2,847,014
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Short-term cash investments (Note 5)	**1,082,127**	(1,035,775)	343
Other noncurrent assets	**(187,225)**	(42,748)	45,112
Purchase of held-to-maturity investments (Note 9)	**(945,633)**	(57,894)	–
Acquisition of property, plant and equipment (Note 12)	**(562,521)**	(355,114)	(472,466)
Proceeds from sale of:			
Property, plant and equipment	**190**	–	1,045
Investments in shares of stock	**350**	–	–
Net cash used in investing activities	**(612,712)**	(1,491,531)	(425,966)

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of treasury stock (Note 16)	**₱129,765**	₱302,233	**₱–**
Payments of:			
Dividends	**(507,582)**	(444,146)	(242,911)
Long-term debts and obligations (Note 15)	**–**	–	(651,802)
Bank loans (Note 15)			
Availments	**32,966,000**	23,470,750	23,278,000
Payments	**(32,869,500)**	(23,364,250)	(23,852,243)
Reacquisition of shares into treasury (Note 16)	**(121,797)**	(313,679)	–
Advances from related parties (Note 21)	**–**	–	99,143
Net cash used in financing activities	**(403,114)**	(349,092)	(1,369,813)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,869**	2,212	(792)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**16,495**	(279,098)	1,050,443
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,496,554**	1,775,652	725,209
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱1,513,049**	₱1,496,554	₱1,775,652

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information

RFM Corporation (the Parent Company) was incorporated on August 16, 1957 and registered with the Philippine Securities and Exchange Commission (SEC). On July 9, 2007, the SEC approved the extension of the Company's corporate life from August 22, 2007 to October 13, 2056. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange (PSE) starting in 1966. The Parent Company is mainly involved in the manufacturing, processing and selling of wheat, flour and flour products, pasta, milk, juices, margarine, and other food and beverage products. The Parent Company and its subsidiaries are collectively referred to herein as the Group. The principal office address of the Parent Company is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements were authorized for issuance by the Parent Company's Audit Committee on April 3, 2018, as delegated by the Board of Directors (BOD) on January 31, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for the Group's land, which are stated at appraised values, and available-for-sale (AFS) financial assets that are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional currency. All values are rounded off to the nearest thousand pesos (₱000), except for the number of shares or when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the SEC which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements*, with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) (see Note 11).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 15 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

  (a) Classification and measurement
  Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.



Debt instruments which are currently held as held-to-maturity instruments under PAS 39 are expected to qualify for amortized cost measurement as these are held with the intention to collect contractual cash flows until maturity.

(b) Impairment
PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality.

(c) Hedge Accounting
The Group has no existing hedge relationships as of December 31, 2017. The Group assesses that the hedging requirements of PFRS 9 will not have a significant impact on the Group's consolidated financial statements.

The Group continues to study the impact of the adoption of PFRS 9.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Group is currently assessing the impact of adopting PFRS 15.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendments are not applicable to the Group since none of the entities within the Group are considered as venture capital organization or other qualifying entities.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.



Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The adoption of these amendments is not expected to have any significant impact on the consolidated financial statements.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  The adoption of these amendments is not expected to have any significant impact on the consolidated financial statements since the Group accounts for its interests in associates or joint ventures using the equity method or, as applicable, the proportionate consolidation method as allowed by the SEC.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

The consolidated subsidiaries, which are all incorporated in the Philippines, and the effective percentages of ownership as of December 31, 2017 and 2016 are as follows:

Entity	Nature of Business	Percentage of Ownership
Cabuyao Logistics and Industrial Center, Inc. (CLIC)	Leasing	100.00
Interbake Commissary Corporation (ICC)	Toll processing	100.00
RFM Equities, Inc. (REI)	Holding	100.00
RFM Foods Philippines Corporation (RFM Foods)*	Food retailer	100.00
Southstar Bottled Water Company, Inc. (Southstar)*	Bottled water business	100.00
Swift Tuna Corporation (Swift Tuna)*	Manufacturing	100.00
Invest Asia Corporation (IAC)	Leasing	96.00
Rizal Lighterage Corporation (RLC)	Barging services	93.51
FWBC Holdings, Inc.*	Holding company	83.38
Filipinas Water Bottling Company, Inc. (FWBC)*	Bottled water manufacturing	44.88
RFM Canning and Marketing, Inc. (RFM Canning)*	Canning services	70.00
WS Holdings, Inc. (WHI)	Holding company	60.00

**Dormant*

Subsidiaries

Subsidiaries are entities controlled by the Parent Company. The Parent Company controls an investee if, and only, if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and consolidated comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Consolidated financial statements are prepared for the same reporting period as the parent company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments where necessary are made to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in consolidated statement of comprehensive income to consolidated statement of income or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling interests
Non-controlling interests represent the portion of equity not attributable to the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interest are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within the equity section of consolidated statement of financial position and consolidated statement of changes in equity, separately from the equity attributable to equity holders of the Parent Company.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value, at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 in the consolidated statement of income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU), or group of CGU's that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every reporting date.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets including deferred taxes are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities including deferred taxes as noncurrent.

Investments in Joint Ventures and Associate

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries (e.g., contractual arrangements, voting rights and potential voting rights).

The Group's investments in joint venture and associate are accounted for using the equity method except for its investment in URICI, a joint venture, which is accounted for using the proportionate consolidation method as permitted by the SEC. This method involves consolidating a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the Group's consolidated financial statements on a line-by-line basis.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the financial performance of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income under "Other income (charges)" and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method and the proportionate consolidation method for the investment in URICI, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in the associate and joint ventures are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.



Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and which are subject to an insignificant risk of changes in value.

Short-term Cash Investments

Short-term cash investments are short term placements with maturities of three months but less than one year from date of acquisition. The Group earns interest at the respective short-term deposit rates.



Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate), loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate) and other financial liabilities. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2017 and 2016, the Group has no financial assets and financial liabilities at FVPL.

"Day 1" difference

Where the transaction price in a non-active market is different than the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Group's loans and receivables include cash and cash equivalents, short-term cash investments, trade receivables, nontrade receivables, advances to related parties and other receivables.



AFS financial assets
AFS financial assets are non-derivative financial assets are designated as AFS when they are not classified in any of the three other categories. The Group classifies financial assets as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated other comprehensive income as "Net changes in fair value of AFS financial assets". When the financial asset is disposed of, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method. Dividends earned on financial assets are recognized in the consolidated statement of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investments. The major factor of this decision is whether or not the Group will experience inevitable further losses on investments. These financial assets are classified as noncurrent unless there is intention to dispose of such assets within 12 months from the reporting date.

AFS financial assets in unquoted equity securities are carried at cost, less any allowance for impairment.

As of December 31, 2017 and 2016, the Group's AFS financial assets include investments in unquoted common shares and quoted golf club and other shares.

HTM Investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities and which investments the Group has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs.

The Group's investment in bonds as of December 31, 2017 and 2016 is classified under this category.

Embedded derivatives
Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. In measuring the embedded derivatives, the Group takes into account the probability that the conditions (e.g., event of default) triggering the exercise of the derivatives will happen in the future. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals).

The financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.



Financial liabilities are classified as current, except for maturities greater than 12 months after the reporting date. These are classified as noncurrent liabilities.

As of December 31, 2017 and 2016, the Group's other financial liabilities include bank loans, accounts payable and other current liabilities (excluding payables to government agencies), security deposit, and advances from related parties.

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Financial assets at amortized cost

The Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of income. Interest income (recorded as interest and financing income in the consolidated statement of income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to interest and financing income in the consolidated statement of income.

AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income.

Impairment losses on equity investments are recognized in the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.



Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the product to its present location and condition are accounted for as follows:

Finished goods and goods in process	-	determined using the moving average method; cost includes direct materials, direct labor and a proportion of manufacturing overhead costs based on normal operating capacity. For goods in process, cost includes the applicable allocation of fixed and variable overhead costs.
Raw materials, spare parts and supplies	-	purchase cost using the moving average method



NRV of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

For raw materials, NRV is the current replacement cost. In case of spare parts and supplies, NRV is the estimated realizable value of the inventories when disposed of at their condition at the reporting date.

An allowance for inventory obsolescence is provided for slow-moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation.

Other Current Assets
Other current assets include prepaid expenses, deposit on purchases of inventories, tax credits and input VAT.

Prepaid expenses. These are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other noncurrent assets.

Deposit on purchases of inventories. This account comprises of advance payments to suppliers for payments on goods to be purchased in connection with the Group's operations. These are reclassified as part of inventory upon delivery of the related asset.

Value-added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Other Noncurrent Assets
Other noncurrent assets include security deposits and deposit on purchases of property, plant and equipment.

Deposit on purchases of property plant and equipment. This account comprises of advance payments to contractors for the construction and development of property, plant, and equipment. These are reclassified as part of property, plant and equipment upon the completion or delivery of the related asset.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation, and any impairment in value. The initial cost of items of property, plant and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property, plant and equipment.



Land is stated at appraised value based on a valuation performed by an independent firm of appraisers. The increase in the valuation of land is credited to "Revaluation increment on land" account, net of deferred income tax effect, and presented under the equity section of the consolidated statement of financial position.

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through the consolidated statement of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Land improvements	5 to 20
Silos, buildings and improvements	5 to 30
Machinery and equipment	5 to 25
Office furniture and fixtures	2 to 10
Transportation and delivery equipment	5

Leasehold improvements are depreciated over the life of the assets or the lease term, whichever is shorter.

Construction in progress are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. Construction in progress are reclassified into appropriate class of property, plant and equipment when the relevant assets are completed and available for use.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal. Fully depreciated assets are in the accounts until they are no longer in use and no further depreciation is recognized in the consolidated statement of income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.



The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives (e.g., computer software) are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Group amortizes computer software over three years.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives such as trademark and goodwill are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life of trademark is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs:

(i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred;
(ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and
(iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Where funds are borrowed specifically to finance a project, the amount capitalized represents actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is determined by applying the capitalization rate to the expenditures on the asset. The amount of capitalized borrowing cost, though, cannot exceed the actual borrowing cost incurred during the period.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Nonfinancial Assets

The carrying values of investments in joint ventures and investment in an associate, property, plant and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Trademark and goodwill are tested for impairment at least annually or when there is an identified indicator of impairment.

If any such indication exists or where the carrying value exceeds the recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.



The recoverable amount of an asset or CGU is the greater of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Customers' Deposits
Customers' deposits represent advance payments from customers which will be applied against the related receivables upon delivery of goods.

Capital Stock
Capital stock is stated at par value for all shares issued and outstanding. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case shares are issued to extinguish or to settle the liability of the Parent Company, the share shall be measured at either the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock
Own equity instruments which are reacquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying value and the consideration, if reissued, is recognized in the "Additional paid-in capital" account. The cost of treasury stock sold or cancelled is determined on a first-in, first-out basis.

When the shares are retired, the capital stock account is reduced by its par value, and the excess of cost over par value upon retirement is debited to "Additional paid-in capital" to the extent of the specific or average additional paid-in capital when the shares were issued and to the retained earnings for the remaining balance.

Equity Reserve
Equity reserve is the difference between the acquisition cost of an entity under common control and the Parent Company's proportionate share in the net assets of the entity acquired as a result of a business

combination accounted for using the pooling of interests method. Equity reserve is derecognized when the subsidiary is deconsolidated, which is the date on which control ceases.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, effect of changes in accounting policy and other capital adjustments.

Dividends on Common Shares
Cash and property dividends on common shares are recognized as liability and deducted from equity when approved and declared by the BOD of the Parent Company. Stock dividends are treated as transfers from retained earnings to paid-in capital stock when approved and declared by the BOD and the stockholders representing at least two-thirds of the outstanding capital stock.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting period.

Earnings per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to equity holders of the Group by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS is calculated in the same manner, adjusted for the effects of any dilutive potential common shares. Where the effect of the dilutive potential common shares would be anti-dilutive, basic and diluted earnings per share are stated at the same amount.

The Group does not have potential dilutive common shares in 2017 and 2016.

Revenue Recognition
Revenue from sale of goods and services from manufacturing and service operations is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, value-added tax (VAT), and returns. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Sale of goods (Manufacturing)
Revenue is recognized, net of applicable discounts, when the significant risks and rewards of ownership of the goods have passed to the buyer and there is actual delivery made and the same is accepted by the buyer.

Sale of services (Service)
Revenue is recognized upon performance of services in accordance with the substance of the relevant agreements.

Rent
Rent income is recognized on a straight-line basis over the terms of the lease.

Interest and financing income
Interest income is recognized as the interest accrues using the EIR method.

Dividend income
Dividend income on investments in shares of stock is recognized when the Group's right to receive the payment is established, which is the date when the dividend declaration is approved by the investee's BOD and/or the stockholders.

Cost of Goods Sold
Cost of goods sold is recognized when the related goods are sold.

Selling and Marketing and General and Administrative Expenses
Selling and marketing expenses are costs incurred to sell or distribute the goods. It includes export and documentation processing and delivery, among others. General and administrative expenses constitute costs of administering the business. These are expensed as incurred.

Short-term Employee Benefits
Short-term employee benefits include salaries and wages, vacation leave and sick leave benefits and other benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related services. These are recognized in the consolidated statements of income in the appropriate expense categories.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefits costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized in other comprehensive income and transferred to retained earnings in the period in which they arise. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.



Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Leases where lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credit from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT], and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.



Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside the consolidated statement of income is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Foreign Currency-Denominated Transactions and Translations
Transactions denominated in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

When a gain or loss on a non-monetary item is recognized in the consolidated statement of comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the consolidated statement of income, any exchange component of that gain or loss shall be recognized in the consolidated statement of income.

Provision and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The expense relating to any provision is presented in the parent company statement of income, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.



Events After the Reporting Date
Events after the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the group company financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to consolidated financial statement when material.

3. Management's Use of Significant Accounting Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Group to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the consolidated financial statements when they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of useful life of trademark
The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be appropriate. When there are events that indicate that the indefinite useful life assessment is no longer appropriate, the useful life assessment will be changed from indefinite to finite.

Based on analysis of relevant factors indicated below, management has assessed that there is no foreseeable limit to the period over which the trademark is expected to generate cash inflows for the Group:

- Management does not expect to encounter significant difficulties in renewing the registration of the trademark.
- Management has assessed that the cost of renewing the trademark as insignificant when compared with the economic benefits expected to flow to the Group from the continued use of the trademark.
- Management is committed to continue to invest for the long term to extend the period over which the trademark is expected to continue to provide economic benefits.

Consequently, management assessed that the trademark has an indefinite useful life as of December 31, 2017 and 2016.

Distinction between Investment Properties and Owner-occupied Properties
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation at the reporting date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed as follows:

Estimation of allowance for doubtful accounts

The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessments. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. If no future cash flows is expected, impairment loss is equal to the carrying balance of the receivables. Factors considered in individual assessment are payment history, inactive accounts, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile.

As of December 31, 2017 and 2016, the carrying value of receivables amounted to ₱2,193.12 million and ₱2,321.87 million, respectively. Allowance for doubtful accounts as of December 31, 2017 and 2016 amounted to ₱165.40 million and ₱153.23 million, respectively (see Note 6).

Determination of NRV of inventories

The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying values of the Group's inventories amounted to ₱1,533.89 million and ₱1,169.82 million as of December 31, 2017 and 2016, respectively (see Note 7).

Estimation of useful lives of property, plant and equipment

The Group estimates the useful lives of depreciable property, plant and equipment based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property,

plant and equipment would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa.

There had been no changes in the estimated useful lives of property, plant and equipment in 2017 and 2016. The carrying values of property, plant and equipment are disclosed in Note 12 to the consolidated financial statements.

Valuation of land under revaluation basis
The Group's parcels of land are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The revaluation is performed by professionally qualified appraisers and uses the Sales Comparison Approach (see Note 12). Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the reporting date.

As of December 31, 2017 and 2016, the carrying values of parcels of land carried at revalued amounts amounted to ₱3,117.63 million and ₱2,479.53 million, respectively (see Note 12).

Impairment of trademark and goodwill
The Group reviews for impairment the carrying value of trademark and goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of trademark and goodwill annually every reporting period.

For purposes of impairment testing of trademark, the most appropriate valuation approach used is based on the circumstances relevant to the Group and based on the extent of available information. The Group determined that the recoverable amount of the trademark with infinite useful life is fair value less cost of disposal. The fair value of the trademark was calculated using relief from royalty method that considers royalty savings accruing arising from the ownership of the trademark. Management assessed that the costs of disposal, which mainly pertain to the cost of transferring the certificate of registration with the Intellectual Property Office and documentary stamp tax, to be insignificant.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. The Group determined that the recoverable amount of the goodwill is value-in-use. Value-in-use calculation is based on a discounted cash flow model. The recoverable amount is sensitive to the discount rate used and the expected future cash in-flows and the growth rates. Assessments require the use of estimates and assumptions such as discount rates, future capital requirements and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized.

The key assumptions used to determine the recoverable amount are further discussed in Note 13. No impairment losses were recognized in 2017, 2016 and 2015 (see Note 13).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and adjusts the balance of deferred income tax assets to the extent that it is probable that the Group will be able to utilize the tax benefits arising from these deferred income tax assets and that sufficient future taxable profits are available for the utilization of the deferred income tax assets recognized.

Deferred income tax assets recognized amounted to ₱319.20 million and ₱258.75 million as of December 31, 2017 and 2016, respectively (see Note 23).



Estimation of retirement benefit obligation
The determination of the Group's retirement benefit obligation depends on the selection by management of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 22 and include, among others the discount rate and rate of salary increase.

Net retirement obligation amounted to ₱161.67 million and ₱175.12 million as of December 31, 2017 and 2016, respectively (see Note 22).

Estimation of provisions
The estimate of the probable costs for the resolution of possible third party claims has been developed in consultation with outside consultant/legal counsel handling the Group's defense on these matters and is based upon an analysis of potential results. When management and its outside consultant/legal counsel believe that the eventual liabilities under these and any other claims, if any, will not have a material effect on the consolidated financial statements, no provision for probable losses is recognized in the Group's consolidated financial statements. The amount of provision is being reassessed at least on an annual basis to consider new relevant information.

4. Segment Information

The Group's management reports its operating business segments into the following: (a) consumer business, (b) institutional business, and (c) other operations. The consumer business segment manufactures ice cream products, milk and juices, and sells the latter together with pasta and rice-based mixes. The institutional business segment primarily manufactures flour and bread products, pasta and rice-based mixes but only sells flour and bread products. Other segments consist of lighterage, office space leasing and other services shown in aggregate as "Other operations". These are the operating segments reported to the chief operating decision maker.

The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. All operating business segments used by the Group meet the definition of reportable segment under PFRS 8, *Segment Reporting*.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade, wages and taxes currently payable and accrued liabilities.

Intersegment transactions, i.e., segment revenues and segment expenses, include transfers between business segments. Those transfers are eliminated in consolidation and reflected in the "eliminations" column.

The Group does not have a single external customer from which revenue generated amounted to 10% or more of the total revenue of the Group.

Information with regard to the Group's significant business segments follows:

	2017						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱9,291,267	₱3,411,610	₱40,774	₱–	₱12,743,651	₱–	₱12,743,651
Intersegment sales	1,330	–	225,885	–	227,215	(227,215)	–
	₱9,292,597	₱3,411,610	₱266,659	₱–	₱12,970,866	(₱227,215)	₱12,743,651
Results							
Interest and other financial charges - net	(₱11,503)	₱124	(₱3,397)	₱34,820	₱20,044	₱–	₱20,044
Equity in net earnings of an associate	₱–	₱–	₱10,934	₱–	₱10,934	₱–	₱10,934
Income before income tax	₱908,236	₱483,325	₱20,375	₱615,507	₱2,027,443	(₱552,573)	₱1,474,870
Provision for income tax	(266,870)	–	(5,244)	(157,995)	(430,109)	–	(430,109)
Net income	₱641,366	₱483,325	₱15,131	₱457,512	₱1,597,334	(₱552,573)	₱1,044,761
Other information							
Segment assets	₱6,805,785	₱5,094,541	₱1,149,833	₱2,300,357	₱15,350,516	(₱592,221)	₱14,758,295
Investments	314,964	–	61,728	2,007,306	2,383,998	(1,223,544)	1,160,454
Consolidated Total Assets	₱7,120,749	₱5,094,541	₱1,211,561	₱ 4,307,663	₱17,734,514	(₱1,815,765)	₱15,918,749
Consolidated Total Liabilities	₱14,533,127	₱7,050,264	₱823,502	₱3,765,190	₱26,172,083	(₱21,405,898)	₱4,766,185
Capital expenditures	₱396,590	₱160,712	₱3,482	₱1,737	₱562,521	₱–	₱562,521
Depreciation and amortization	185,848	110,847	81,776	10,617	389,088	–	389,088

	2016						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱9,102,012	₱3,553,860	₱42,786	₱–	₱12,698,658	₱–	₱12,698,658
Intersegment sales	3,225	–	227,515	–	230,740	(230,740)	–
	₱9,105,237	₱3,553,860	₱270,301	₱–	₱12,929,398	(₱230,740)	₱12,698,658
Results							
Interest and other financial charges - net	(₱8,856)	₱122	₱295	₱21,997	₱13,559	₱–	₱13,559
Equity in net earnings of an associate	₱–	₱–	₱5,116	₱7,163	₱12,279	₱–	₱12,279
Income before income tax	₱901,557	₱714,398	₱19,863	₱343,752	₱1,979,570	(₱493,390)	₱1,486,180
Provision for income tax	(242,395)	–	(7,275)	(236,130)	(485,800)	–	(485,800)
Net income (loss)	₱659,162	₱714,398	₱12,588	₱107,622	₱1,493,770	(₱493,390)	₱1,000,380
Other information							
Segment assets	₱4,730,016	₱4,495,637	₱1,411,220	₱5,658,398	₱16,295,271	(₱1,768,161)	₱14,527,110
Investments	314,864	–	61,675	1,057,069	1,433,608	(1,222,123)	211,485
Consolidated Total Assets	₱5,044,880	₱4,495,637	₱1,472,895	₱6,715,467	₱17,728,879	(₱2,990,284)	₱14,738,595
Consolidated Total Liabilities	₱2,743,910	₱1,293,080	₱998,863	₱493,760	₱5,529,613	(₱940,067)	₱4,589,546
Capital expenditures	₱182,805	₱136,431	₱15,705	₱20,173	₱355,114	₱–	₱355,114
Depreciation and amortization	171,800	106,925	86,982	11,922	377,629	847	378,476

	2015						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱8,167,172	₱3,778,055	₱36,669	₱–	₱11,981,896	₱–	₱11,981,896
Intersegment sales	2,110		232,411	–	234,521	(234,521)	–
	₱8,169,282	₱3,778,055	₱269,080	₱–	₱12,216,417	(₱234,521)	₱11,981,896
Results							
Interest and other financial charges - net	(₱10,302)	₱311	(₱3,923)	(₱2,969)	(₱16,883)	–	(₱16,883)
Equity in net earnings of an associate	₱–	₱–	₱12,331	₱–	₱12,331	₱–	₱12,331
Income (loss) before income tax	₱637,971	₱1,983,012	(₱236,016)	(₱293,080)	₱1,191,887	₱–	₱1,191,887
Provision for income tax	(192,279)	6,085	(2,512)	(98,253)	(286,959)	–	(286,959)
Net income (loss)	₱445,692	₱1,989,097	(₱238,528)	(₱391,333)	₱904,928	₱–	₱904,928
Other information							
Segment assets	₱4,657,240	₱4,026,577	₱1,277,479	₱4,096,306	₱14,057,602	(₱288,077)	₱13,769,525
Investments	314,964	–	61,697	999,175	1,375,836	(1,222,193)	153,643
Consolidated Total Assets	₱4,972,204	₱4,026,577	₱1,339,176	₱5,095,481	₱15,433,438	(₱1,510,270)	₱13,923,168
Consolidated Total Liabilities	₱2,650,187	₱1,950,557	₱989,653	₱288,844	₱4,979,241	(₱683,336)	₱4,295,905
Capital expenditures	₱113,640	₱213,892	₱113,308	₱ 31,626	₱472,466	₱–	₱472,466
Depreciation and amortization	178,845	81,907	102,562	8,068	371,382	847	372,229

5. Cash and Cash Equivalents and Short-term Investments

	2017	2016
Cash on hand and in banks	**₱609,151**	₱521,856
Cash equivalents	**903,898**	974,698
	₱1,513,049	₱1,496,554

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term investments made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates. Interest income earned from cash in banks and cash equivalents amounted to ₱0.82 million, ₱5.88 million and ₱7.88 million in 2017, 2016 and 2015, respectively (see Note 20).

Short-term cash investments amounting to ₱39.62 million and ₱1,121.75 million as of December 31, 2017 and 2016, respectively, have maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing market rates. Interest income earned on short-term cash investments amounted to ₱18.35 million, ₱17.31 million and ₱3.50 million in 2017, 2016 and 2015, respectively (see Note 20).

6. Receivables

	2017	2016
Trade receivables:		
Third parties	**₱2,016,317**	₱2,169,076
Related parties (Note 21)	**12,020**	11,416
Advances to related parties (Note 21)	**207,587**	151,945
Nontrade receivables	**36,248**	74,974
Advances to officers and employees	**33,701**	21,146
Other receivables	**52,648**	46,536
	2,358,521	2,475,093
Less: Allowance for doubtful accounts	**165,398**	153,227
	2,193,123	2,321,866
Less: Noncurrent portion of advances to related parties (see Note 21)	**14,552**	–
Current portion	**₱2,178,571**	₱2,321,866

Trade receivables are noninterest-bearing and are generally on a 30 to 60 days term.

In 2015, the BOD of Philtown Properties, Inc. (Philtown) approved the redemption of the preferred shares at ₱3.5 per share and issued a promissory note for the redemption price of ₱762.85 million with interest rate of 0.5% per annum. The note receivable, which is payable in two (2) installments and matured on November 25, 2017, was recognized at fair value amounting to ₱307.45 million. In 2016, the BOD approved the write-off of the note receivable from Philtown which remained uncollected as at December 31, 2017.

The movement in the allowance for doubtful accounts, which were determined using specific impairment for the years ended December 31 follows:

	2017					
	Trade receivables	Nontrade receivables	Advances to officers and employees	Advances to related parties	Other receivables	Total
January 1, 2017	₱134,664	₱4,307	₱4,856	₱–	₱9,400	₱153,227
Provision (Notes 18 and 19)	101,428	–	–	–	–	101,428
Write-offs	(89,257)	–	–	–	–	(89,257)
December 31, 2017	₱146,835	₱4,307	₱4,856	₱–	₱9,400	₱165,398

	2016					
	Trade receivables	Nontrade receivables	Advances to officers and employees	Advances to related parties	Other receivables	Total
January 1, 2016	₱68,669	₱4,307	₱2,423	₱116,122	₱1,400	₱192,921
Provision (Notes 18 and 19)	96,997	–	2,433	145,208	8,000	252,638
Write-offs	(31,002)	–	–	(261,330)	–	(292,332)
December 31, 2016	₱134,664	₱4,307	₱4,856	₱–	₱9,400	₱153,227

No losses were identified and recognized from the collective impairment assessments for years 2017, 2016 and 2015.

7. Inventories

	2017	2016
At NRV:		
Finished goods	₱525,397	₱456,951
Raw materials	840,019	460,223
Spare parts and supplies	83,221	62,174
	1,448,637	979,348
At cost:		
Raw materials in transit	85,018	190,262
Goods in process	230	208
	85,248	190,470
	₱1,533,885	₱1,169,818

Total cost of inventories stated at NRV amounted to ₱1,471.52 million and ₱1,008.10 million as of December 31, 2017 and 2016, respectively.

The cost of inventories recognized as cost of goods sold amounted to ₱5,690.79 million, ₱5,503.67 million and ₱5,864.00 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 17).

Movements in the allowance for losses and inventory obsolescence are as follows:

	2017	2016
Balance at beginning of period	**₱28,752**	₱18,288
Provisions (Note 17)	**25,031**	32,670
Write-off/Reversal	**(30,902)**	(22,206)
Balance at end of period	**₱22,881**	₱28,752

8. Other Current Assets

	2017	2016
Deposits on purchases	**₱116,591**	₱151,058
Creditable withholding taxes	**86,683**	15,156
Prepaid expenses	**78,447**	61,001
Input VAT	**17,415**	16,129
Others	**24,899**	38,861
	₱324,035	₱282,205

9. Investments

AFS financial assets

AFS financial assets for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Unquoted AFS financial assets:		
Common shares	**₱4,652**	₱5,002
Quoted AFS financial assets:		
Golf club and other common shares	**30**	30
End of year	**₱4,682**	₱5,032

The AFS financial assets in unquoted shares of stock are carried at cost less any impairment in value because fair values cannot be readily determined.

Dividend income earned from AFS financial assets amounted to ₱0.13 million, ₱0.07 million and nil in 2017, 2016 and 2015, respectively.

HTM investments

The Parent Company invested in various quoted Peso-denominated government securities amounting to ₱1,003.53 million and ₱57.89 million as of December 31, 2017 and 2016, respectively. These securities have effective interest rates ranging from 2.13% to 4.25% in 2017 and 2.25% to 3.20% in 2016 and have maturities ranging from 3 months to more than a year.

Interest income earned amounted to ₱17.15 million and ₱0.23 million in 2017 and 2016, respectively (see Note 20).

10. Investments in Joint Venture and Associate

	2017	2016
Cost	**₱141,313**	₱141,313
Accumulated equity in net earnings		
Beginning of year	**12,278**	12,330
Equity in net earnings for the year	**10,934**	12,279
Dividends received	**(12,280)**	(12,331)
End of year	**10,932**	12,278
Carrying value	**₱152,245**	₱153,591

Summarized financial information of Selecta Walls Land Corporation (SWLC), an associate, as of and for the years ended December 31 follow:

	2017	2016
Current assets (includes cash amounting to ₱24.26 million and ₱36.27 million as of December 31, 2017 and 2016, respectively)	**₱24,276**	₱36,272
Noncurrent assets	**226,980**	227,322
Current liabilities (includes income tax payable amounting to ₱1.26 million and ₱1.05 million as of December 31, 2017 and 2016, respectively)	**1,358**	11,454
Revenue	**26,930**	26,930
Interest income	**75**	110
Expenses	**4,105**	1,898
Provision for income tax	**4,677**	4,677
Net income	**18,223**	20,465

The carrying amount of the investment is computed as follows:

	2017	2016
Equity	**₱244,322**	₱246,564
Beneficial interest of the Group	**60%**	60%
Share of the Group	**146,593**	147,938
Premium paid	**2,528**	2,528
Carrying amount of the investment	**₱149,121**	₱150,466

Dividends received from SWLC amounted to ₱7.16 million, ₱7.19 million and ₱7.26 million in 2017, 2016 and 2015, respectively.

SWLC's registered office address and principal place of business is Manggahan Light Industrial Compound, Bo. Manggahan, Pasig City.

Engrain-RFM Pacific, Inc.

In 2013, the Parent Company entered into a joint arrangement with Engrain LLC to form a new corporation named Engrain-RFM Pacific, Inc., the primary purpose of which is to sell, market, distribute at wholesale enzyme-enhanced flour-based products for the Philippines and Asia Pacific market. The Parent Company has a 50% equity interest in the said arrangement. The Parent Company has accounted for its investment in Engrain-RFM Pacific, Inc. as a joint venture under PFRS 11.

Engrain-RFM Pacific, Inc. has not yet started commercial operations. Cost of investment in Engrain-RFM Pacific, Inc. amounted to ₱3.13 million as of December 31, 2017 and 2016.

Engrain-RFM Pacific, Inc.'s principal place of business is the same as with the Parent Company.

11. Interest in a Joint Venture Proportionately Consolidated

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (UPI), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and Unilever Philippines, Inc., the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱5,745.86 million and ₱5,296.27 million as of December 31, 2017 and 2016, respectively.

On October 1, 2012, the Parent Company requested from the SEC for an exemptive relief from the adoption of PFRS 11 on its investment in URICI. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 on its investment in URICI on the following grounds:

- Material impact

  The transition from the proportionate consolidation method to equity method in accounting for the Parent Company's interest in URICI would materially affect the Parent Company's consolidated financial statement line items decreasing revenue, gross profit, net operating income, gross assets and gross liabilities.

- Peculiarities of the arrangement

  a. The trademark agreement indicates that URICI can use "Selecta" licensed trademarks, trade names, logos, designs, symbols, words or devices other than the marks only upon approval of the Parent Company. This is an indication that the Parent Company has an indirect control on the activities being performed under the joint arrangement.

     The use of the trademark license by URICI is under the control of the Parent Company. Accordingly, the main products produced by URICI must conform to the quality standards of the Parent Company.

  b. URICI does not own any real property and instead, has a lease agreement with SWLC, the lessor. SWLC is 35% and 25% owned by the Parent Company and WS Holdings, Inc. (WSHI), respectively, and 40% owned by Unilever, a foreign corporation. WSHI is 60% owned by the Parent Company. Thus, the Parent Company indirectly controls SWLC, the owner of the real property being leased and used by URICI in its business.

Presented below is the impact on the consolidated financial statements if PFRS 11 is applied on the Parent Company's investment in URICI:

Increase (decrease) in	2017	2016
Consolidated Statements of Financial Position		
Cash and cash equivalents	**(₱177,050)**	(₱180,382)
Receivables	**(429,771)**	(314,584)
Advances to related parties	**(9,877)**	(13,563)
Inventories	**(390,654)**	(258,445)
Other current assets	**(175,288)**	(140,711)
Total Current Assets	**(1,182,640)**	(907,685)
Property, plant and equipment	**(1,089,983)**	(952,918)
Investment in associate and joint venture	**307,055**	415,520
Deferred income tax assets - net	**(142,840)**	(117,624)
Other noncurrent assets	**(140,686)**	(310,282)
Total Noncurrent Assets	**(1,066,454)**	(965,304)
Total Assets	**(₱2,249,094)**	(₱1,872,989)
Bank loans	**(₱556,500)**	(₱460,000)
Accounts payable and other current liabilities	**(1,420,485)**	(1,248,132)
Income tax payable	**(79,137)**	(35,745)
Advances from related parties	**(124,492)**	(71,681)
Total Current Liabilities	**(2,180,614)**	(1,815,558)
Net retirement obligation	**(68,480)**	(57,431)
Total Liabilities	**(₱2,249,094)**	(₱1,872,989)

Increase (decrease) in	2017	2016	2015
Consolidated Statements of Income			
Revenue	**(₱4,997,684)**	(₱4,438,834)	(₱3,790,423)
Cost of goods sold	**(2,331,851)**	(2,059,439)	(1,769,094)
Gross profit	**(2,665,833)**	(2,379,395)	(2,021,329)
Operating expenses	**(1,727,776)**	(1,569,341)	(1,345,788)
Income from operations	**(938,057)**	(810,054)	(675,541)
Other income - net	**671,187**	567,658	483,318
Income before income tax	**(266,870)**	(242,396)	(192,223)
Provision for income tax	**(266,870)**	(242,396)	(192,223)
Net income	**₱–**	₱–	₱–

Summarized financial information of URICI as of and for the years ended December 31 follow:

	2017	2016
Current assets (includes cash amounting to ₱354.10 million and ₱360.76 million as of December 31, 2017 and 2016, respectively)	**₱2,365,280**	₱1,815,369
Noncurrent assets	**2,747,017**	2,380,521
Current liabilities (includes income tax payable amounting to ₱158.27 million and ₱71.49 million as of December 31, 2017 and 2016, respectively)	**4,361,227**	3,631,114
Noncurrent liabilities - net retirement obligation	**136,961**	114,863

Statements of Comprehensive Income	2017	2016	2015
Revenue	**₱9,995,368**	₱8,877,668	₱7,580,846
Depreciation and amortization expense	**279,821**	256,234	239,442
Interest income	**310**	352	350
Interest expense	**23,361**	18,992	26,418
Provision for income tax	**533,740**	484,792	384,446
Net income	**1,244,496**	1,111,720	888,551
Other comprehensive loss - remeasurement loss on net retirement obligation	**(4,349)**	(340)	(3,272)
Total comprehensive income	**₱1,240,147**	₱1,111,380	₱891,823

In 2017, 2016 and 2015, dividends received by the Parent Company from URICI amounted to ₱537.98 million, ₱489.49 million and ₱440.18 million, respectively.

12. Property, Plant and Equipment

As of December 31, 2017:

	At Cost							
	Land at Appraised Value	Land Improvements	Silos Buildings and Improvements	Machinery And Equipment	Transportation and Delivery Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost:								
Cost:								
At January 1	₱2,479,531	₱17,324	₱1,208,541	₱5,004,146	₱113,682	₱138,043	₱121,687	₱6,603,423
Revaluation increment	638,097	–	–	–	–	–	–	–
Additions	–	–	45,751	284,327	10,834	5,776	215,833	562,521
Write-off/Disposal	–	–	(7,988)	(164,847)	(9,293)		–	(177,128)
Reclassifications	–	–	51,962	144,146	–	–	(196,108)	–
At December 31	3,117,628	17,324	1,303,266	5,267,772	115,223	143,819	141,412	6,988,816
Accumulated depreciation:								
At January 1	–	12,868	573,285	2,636,261	81,547	129,215	–	3,433,176
Depreciation (Note 20)	–	599	58,476	313,096	12,155	4,756	–	389,082
Write-off/Disposal	–	–	(2,126)	(146,833)	(9,293)	(108)	–	(158,360)
At December 31	–	13,467	629,635	2,802,524	84,409	133,863	–	3,663,898
Accumulated impairment loss:								
At January 1	–	–	–	39,839	–	–	–	39,839
Reversal of impairment loss	–	–	–	(18,456)	–	–	–	(18,456)
December 31	–	–	–	21,383	–	–	–	21,383
Net Book Values at December 31	₱3,117,628	₱3,857	₱673,631	₱2,443,865	₱30,814	₱9,956	₱141,412	₱3,303,535

As of December 31, 2016:

	At Cost							
	Land at Appraised Value	Land Improvements	Silos, Buildings and Improvements	Machinery And Equipment	Transportation and Delivery Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost								
Cost:								
At January 1	₱2,479,531	₱17,324	₱1,169,315	₱4,724,238	₱224,238	₱132,972	₱120,161	₱6,388,248
Additions	–	–	41,605	143,335	9,772	4,760	201,463	400,935
Write-off/Disposal	–	–	(6,942)	(157,987)	(20,786)	(45)		(185,760)
Reclassification	–	–	4,563	294,560	(99,542)	356	(199,937)	–
At December 31	2,479,531	17,324	1,208,541	5,004,146	113,682	138,043	121,687	6,603,423
Accumulated depreciation:								
At January 1	–	12,266	522,030	2,384,121	186,718	128,876	–	3,234,011
Depreciation (Note 20)	–	602	57,441	304,366	10,553	4,022	–	376,984
Write-off/Disposal	–	–	(6,942)	(150,223)	(20,609)	(45)	–	(177,819)
Reclassification	–	–	756	97,997	(95,115)	(3,638)	–	–
At December 31	–	12,868	573,285	2,636,261	81,547	129,215	–	3,433,176
Accumulated impairment loss:								
At January 1	–	–	–	43,271	–	–	–	43,271
Reversal of impairment loss	–	–	–	(3,432)	–	–	–	(3,432)
December 31	–	–	–	39,839	–	–	–	39,839
Net Book Values at December 31	₱2,479,531	₱4,456	₱635,256	₱2,328,046	₱32,135	₱8,828	₱121,687	₱3,130,408

The cost of fully depreciated assets still in use by the Group as at December 31, 2017 and 2016 amounted to ₱272.85 million and ₱242.37 million, respectively.

In 2017, the Parent Company entered into a supply agreement with Buhler Asia Pte., Ltd. for the installation and the commissioning for the equipment for hard wheat mill (see Note 24).

Construction in progress (CIP) as of December 31, 2017 includes the Group's share in the CIP of URICI pertaining to the capacity improvements in its Pasig plant. CIP as of December 31, 2016 includes the construction of loading bay that will be used in the deliveries CIP of dry mix products and installation of the machineries of the Spaghetti Sauce Line 3.

As of December 31, 2017 and 2016, the aggregate fair values of land amounted to ₱3,117.63 million and ₱2,479.53 million, respectively.

The fair values of land was determined by an independent and professionally qualified appraiser on December 29, 2017 using the Sales Comparison Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison and adjusted to reflect differences on size (-10% to -20%) and location (-10% to 10%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the accredited independent appraisers would increase (decrease) the fair value of the parcels of land (Level 3- Significant unobservable inputs). Factors such as the property location, desirability, neighborhood, utility, size, terrain and the time element are involved in estimating the fair value of the land.

The cost of the land stated at appraised value amounted to ₱560.94 million as of December 31, 2017 and 2016.

13. Intangible Assets

	2017			
	Trademark	Goodwill	Computer Software	Total
Cost	₱2,080,932	₱190,563	₱9,097	₱2,280,592
Accumulated Amortization				
At January 1	–	–	9,089	9,089
Amortization (Note 20)	–	–	6	6
At December 31	–	–	9,095	9,095
Net Book Values	₱2,080,932	₱190,563	₱2	₱2,271,497

	2016			
	Trademark	Goodwill	Computer Software	Total
Cost	₱2,080,932	₱190,563	₱9,097	₱2,280,592
Accumulated Amortization				
At January 1	–	–	7,597	7,597
Amortization (Note 20)	–	–	1,492	1,492
At December 31	–	–	9,089	9,089
Net Book Values	₱2,080,932	₱190,563	₱8	₱2,271,503

Trademark

In January 2014, the Parent Company acquired the Royal trademark from the Unilever Group for ₱2.1 billion (US$46.0 million). Management assessed that the Royal trademark has an infinite useful life. Consequently, the trademark is subject to impairment testing at least annually or when impairment indicators are identified. Management has determined that the recoverable amount of the trademark is fair value less cost of disposal wherein fair value is determined using the relief from royalty method. This method considers royalty savings accruing to the Parent Company arising from the ownership of the trademark using cash flow projections based on the financial budgets approved by senior management covering 10-year explicit forecast period. Management assessed that the costs of disposal, which mainly pertain to the cost of transferring the certificate of registration with the Intellectual Property Office and documentary stamp tax, to be insignificant.

Key assumptions used to determine the fair value as of and for the years ended December 31 follow:

Assumptions	2017	2016	Description
Discount rate	**9.72%**	9.71%	Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset. Management used discount rate based on weighted average cost of capital (WACC).
Growth rates	**7% to 53%**	6% to 35%	Growth rates in revenues are based on the Parent Company's expectations of market developments and past historical performance.
Royalty savings rate	**10%**	10%	Royalty savings rate is based on the prevailing comparable past trademark royalty rate obtained from survey by independent third party.
Budgeted brand support	**3%**	3%	Cash flow forecast for brand support is based on past experience and is approved by the Parent Company's senior management. Brand support is based on revenues.

As of December 31, 2017 and 2016, the recoverable amount of the trademark is higher than its carrying value. Management believes that an increase in discount rate by 3.4% would cause the carrying value of the Royal trademark to exceed the recoverable amount as of December 31, 2017.

Goodwill

Goodwill amounting to ₱190.56 million pertains to the Parent Company's investment in URICI (see Note 2). Goodwill is subject to impairment testing at least annually or when impairment indicators are identified. Management has determined that the recoverable amount of the goodwill is value-in-use, which is based on a discounted cash flow model. The cash flow projections are based on financial projections approved by senior management covering a 5-year explicit forecast period, including a terminal value.

Key assumptions used to determined value-in-use as of and for the years ended December 31, 2017 and 2016 follow:

Assumptions		Description
Discount rate	**9.01%**	Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset. Management used discount rate based on weighted average cost of capital (WACC).
Growth rates	**1% to 12%**	Growth rates in revenues are based on URICI's expectations of market developments and past historical performance.
Operating expenses and maintenance capital expenditures		Are based on approved financial budgets by the senior management

As of December 31, 2017 and 2016, the recoverable amount of URICI is higher than its carrying value.

14. Accounts Payable and Other Current Liabilities

	2017	2016
Trade payables:		
Third parties	₱1,454,063	₱1,376,669
Related parties (Note 21)	22,542	44,252
Accruals for:		
Advertisements and promotions	733,916	718,832
Profit bonus	173,467	65,334
Payroll	131,800	89,535
Freight and handling	119,613	101,547
Importation	54,663	163,259
Manpower services	52,719	95,568
Rentals	27,065	29,290
Commission	22,174	15,672
Utilities	17,159	11,094
Interest (Note 15)	2,052	2,192
Others	143,881	185,684
Due to customers	63,085	214,589
Advances from related parties (Note 21)	57,909	68,698
Withholding taxes and other government payables	75,867	56,533
Cash bond - distributors	11,856	22,950
VAT payable	10,522	11,797
Subscriptions payable	5,383	5,383
Other payables	4,513	32,680
	₱3,184,249	₱3,311,558

Trade payables are noninterest-bearing and are generally settled on 30-60 days' terms.

Cash bond pertains to cash received from the distributors as security to retain their credit line.

15. Bank Loans and Long-term Debts

Bank Loans

Bank loans represent the Group's proportionate share in the unsecured short-term loans of URICI from local banks and lending investors bearing effective annual interest rates within the range of 2.35% to 3.00% in 2017 and 2.15% to 2.90% in 2016. The Group's share in the outstanding principal balance of these bank loans amounted to ₱556.50 million and ₱460.00 million as of December 31, 2017 and 2016, respectively.

In 2014, the Parent Company obtained US$-denominated promissory notes. Notes payable are short-term US dollar denominated loans availed by the Parent Company from a local bank used to partially finance the acquisition of Royal pasta trademark in 2014 and for general corporate requirements. These loans had annual interest of 1.875% and matured in 30 days. Outstanding principal of these short-term loans amounted to ₱223.60 million (US$ 5.00 million) as of December 31, 2014. The loans were fully paid in 2015.

Interest expense on bank loans amounted to ₱11.68 million, ₱9.50 million and ₱15.25 million in 2017, 2016 and 2015, respectively (see Note 20).

Long-term Debts
As of December 31, 2014, the ₱651.80 million long-term debts consist of peso-denominated promissory notes by the Parent Company and ICC obtained from local banks.

In 2015, the Parent Company and ICC prepaid all its long-term loans.

Interest expense amounted to ₱13.01 million in 2015, nil in 2016 and 2017, respectively (see Note 20).

Changes in the Group's liabilities arising from financing activities for the year ended December 31, 2017 only include changes arising from cash flows as presented in the consolidated statement of cash flows.

16. Equity

Capital stock
On October 14, 2013, the SEC approved the amendment of the Parent Company's articles of incorporation to remove the pre-emptive rights of the stockholders to all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the BOD.

As of December 31, 2017 and 2016, the Parent Company has 3,978,265,025 authorized common shares with ₱1 par value per share. Issued and outstanding common shares of 3,497,513,066 and 3,496,240,866 are held by 3,174 and 3,198 shareholders as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, capital stock consists of the following:

	Number of Shares			
	Authorized		Issued and Outstanding	
	2017	2016	**2017**	2016
Issued	**3,978,265,025**	3,978,265,025	**3,500,403,866**	3,500,403,866
Less: Treasury stock	–	–	**(2,890,800)**	(4,163,000)
Issued and Outstanding	**3,978,265,025**	3,978,265,025	**3,497,513,066**	3,496,240,866

Below is a summary of the capital stock movement of the Parent Company:

Year	Date of Transaction	Common Stock Transactions	
1993		185,800,356	
1994	August 3, 1994	93,304,663	(a)
1995	April 7, 1995	1,116,420,076	(b)
1997	February 25, 1997	5,950,650	(c)
1998		20,042,392	(c)
1999		1,804,979	(c)
2000	July 21, 2000	229,582,173	(d)
2000	December 14, 2000	45,252,983	(d)
2001		21,950,505	(c)
2002		195,891,163	(c)
2006	March 17, 2006	47,857,244	(d)
2008	January 9, 2008	1,963,857,184	(e)
2008	July 29, 2008	(767,310,502)	(f)
2014	March 24, 2014	340,000,000	(g)
2016	Various	(74,973,600)	(h)
2016	Various	70,810,600	(h)
2017	Various	(26,592,400)	(i)
2017	Various	27,864,600	(i)
		3,497,513,066	

(a) On July 28, 1994, the SEC approved the Parent Company's declaration of a 50% stock dividend.
(b) On April 7, 1995, the SEC approved a 5-for-1 stock split for the common stock, effectively reducing the par value from ₱10.00 to ₱2.00.
(c) This is the result of the conversion of Parent Company's preferred shares to common shares. Conversion of shares was made at various dates within the year.
(d) Information on the offer price is not available since the shares were not issued in relation to a public offering.
(e) On June 28, 2007, the SEC approved the 2-for-1 stock split for the common stock, effectively reducing the par value from ₱2.00 to ₱1.00.
(f) Cost of retired shares amounted to ₱991.76 million.
(g) On March 24, 2014, the Parent Company issued additional 340.00 million shares.
(h) Purchased 74.97 million treasury stock amounting to ₱313.68 million on various dates in 2016. Re-issued 70.81 million treasury stock amounting to ₱302.23 million on various dates in 2016 resulting in excess of issue price over the cost of treasury stock amounting to ₱8.71 million which is presented under "Additional paid-in capital" account in equity.
(i) Purchased 26.59 million treasury stock amounting to ₱121.80 million on various dates in 2017. Re-issued 27.86 million treasury stock amounting to ₱129.80 million on various dates in 2017 resulting in excess of issue price over the cost of treasury stock amounting to ₱2.14 million which is presented under "Additional paid-in capital" account in equity.

Retained earnings

The details of the Parent Company's declaration of cash dividends follow:

Date of BOD Approval	Amount (in millions)	Type	Amount per share	Record date	Payment Date
September 27, 2017	₱200.19	Cash	₱0.057500	October 11, 2017	November 8, 2017
January 31, 2017	300.00	Cash	0.085760	February 14, 2017	March 10, 2017
August 24, 2016	174.27	Cash	0.050000	September 8, 2016	February 8, 2017
February 24, 2016	270.50	Cash	0.077900	March 10, 2016	March 23, 2016
October 1, 2015	108.08	Cash	0.030876	October 15, 2015	November 10, 2015
February 27, 2015	129.51	Cash	0.370000	March 13, 2015	April 13, 2015

The Group's retained earnings as of December 31, 2017 is restricted for the payment of dividends to the extent of the cost of treasury stock, deferred income tax assets, accumulated equity in undistributed net earnings of an associate and consolidated subsidiaries amounting to ₱227.09 million. In accordance with SRC Rule 63, as amended (2011), Annex 68C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 amounted to ₱4,076.10 million.

17. Cost of Sales and Services

	2017	2016	2015
Raw materials used and changes in inventories (Note 7)	**₱5,690,791**	₱5,503,668	₱5,864,005
Outside services	**655,670**	703,831	538,581
Depreciation and amortization (Note 20)	**277,073**	266,855	277,650
Utilities	**274,323**	304,566	279,336
Personnel costs (Note 20)	**249,673**	201,859	193,395
Repairs and maintenance	**150,332**	158,638	131,112
Rental	**55,988**	58,795	58,078
Provision for inventory obsolescence (Note 7)	**25,031**	32,670	–
Direct labor	**10,219**	14,915	17,809
Taxes and licenses	**3,553**	3,334	8,109
Fuel and oil	**2,657**	934	10,428
Other expenses	**166,205**	172,796	113,687
	₱7,561,515	₱7,422,861	₱7,492,190

18. Selling and Marketing Expenses

	2017	2016	2015
Advertisements	**₱1,184,928**	₱1,326,475	₱1,071,113
Freight and handling	**753,947**	751,379	615,693
Outside services	**260,933**	276,607	267,950
Personnel costs (Note 20)	**85,759**	101,591	78,837
Provision for doubtful accounts (Note 6)	**91,172**	96,997	92,540
Rental	**51,221**	90,385	58,568
Depreciation and amortization (Note 20)	**18,868**	13,737	9,135
Transportation and travel	**7,805**	10,073	8,237
Other expenses	**87,101**	93,548	95,433
	₱2,541,734	₱2,760,792	₱2,297,506

Other expenses include utilities, royalty, repairs and maintenance and other miscellaneous expenses.

19. General and Administrative Expenses

	2017	2016	2015
Personnel costs (Note 20)	**₱520,328**	₱337,280	₱335,608
Outside services	**193,368**	155,666	135,275
Depreciation and amortization (Note 20)	**93,147**	97,884	85,444
Royalty and service fees	**70,751**	50,898	102,660
Professional fees	**62,602**	65,336	10,861
Taxes and licenses	**57,556**	51,866	61,835
Repairs and maintenance	**39,252**	37,294	27,519
Transportation and travel	**26,599**	16,959	13,912
Director's fees	**20,814**	21,258	18,186
Rental	**19,213**	12,115	19,557
Utilities	**14,879**	10,707	26,643
Provision for doubtful accounts (Notes 6 and 21)	**10,256**	155,641	100,000
Donations	**8,173**	4,905	8,166
Representation and entertainment	**6,682**	6,762	7,376
Office supplies	**3,517**	4,300	2,065
Insurance	**3,137**	4,805	3,690
Other expenses	**43,285**	50,494	34,560
	₱1,193,559	₱1,084,170	₱993,357

20. Other Income and Costs and Expense

Interest Income

	2017	2016	2015
Interest income on short-term investments (Note 5)	**₱18,350**	₱17,306	₱3,501
Interest income on cash and cash equivalents (Note 5)	**819**	5,875	7,876
Interest income on HTM investments (Note 9)	**17,148**	230	–
	₱36,317	₱23,411	₱11,377

Personnel Costs

	2017	2016	2015
Salaries and wages	**₱518,462**	₱468,140	₱458,696
Retirement benefits costs (Note 22)	**41,239**	30,363	27,602
Other employee benefits	**296,059**	142,227	121,542
	₱855,760	₱640,730	₱607,840

The distribution of the above amounts follows:

	2017	2016	2015
Cost of sales and services (Note 17)	**₱249,673**	₱201,859	₱193,395
Selling and marketing expenses (Note 18)	**85,759**	101,591	78,837
General and administrative expenses (Note 19)	**520,328**	337,280	335,608
	₱855,760	₱640,730	₱607,840

Depreciation and Amortization of Property, Plant and Equipment, and Computer Software

	2017	2016	2015
Property, plant and equipment (Note 12)	**₱389,082**	₱376,984	₱369,524
Computer software (Note 13)	**6**	1,492	2,705
	₱389,088	₱378,476	₱372,229

Distribution of the above amounts follows:

	2017	2016	2015
Cost of sales and services (Note 17)	**₱277,073**	₱266,855	₱277,650
Selling and marketing expenses (Note 18)	**18,868**	13,737	9,135
General and administrative expenses (Note 19)	**93,147**	97,884	85,444
	₱389,088	₱378,476	₱372,229

Interest Expense

	2017	2016	2015
Interest expense on bank loans (Note 15)	**₱11,680**	₱9,496	₱15,252
Interest expense on long-term debts (Note 15)	**–**	–	13,008
Others	**4,593**	356	–
	₱16,273	₱9,852	₱28,260

21. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The Company's transactions and account balances with related parties follows:

		2017		2016				
Related Parties	Transaction	Amount	Outstanding receivable (payable)	Amount	Outstanding receivable (payable)	Statement of Financial Position Account	Terms	Conditions
Joint venture								
ULP	Sale of goods and services	**₱13,158**	**₱1,268**	₱20,350	₱11,017	Receivables	Non-interest bearing to be to be settled in cash	-do-
-do-	Service agreement	**244,073**	**6,090**	51,083	2,561	-do-	Non-interest-bearing, collectible in 60 days	-do-
-do-	-do-	**–**	**(56,369)**	–	(29,386)	Accounts Payable and Other Current Liabilities	Non-interest bearing	-do-
-do-	Purchase of goods and services	**–**	**65,235**	14,043	(41,400)	Accounts Payable and Other Current Liabilities	-do-	-do-
-do-	Rent expenses	**13,465**	**–**	13,465	–	-do-	-do-	-do-
URICI	Management service income	**30,491**	**7,829**	22,057	942	Receivables	Non-interest bearing, collectible on demand but not later than 12 months	Unsecured, no impairment
-do-	Service fees	**–**	**(1,289)**	–	(957)	Accounts payables and other current liabilities	-do-	-do-
Unilever NV	Cost reimbursement	**–**	**1,808**	–	(895)	Accounts Payable and Other Current Liabilities	Non-interest bearing	Unsecured, no impairment
-do-	Share-based compensation plans	**–**	**–**	–	–	-do-	-do-	-do-

(Forward)

Related Parties	Transaction	2017 Amount	2017 Outstanding receivable (payable)	2016 Amount	2016 Outstanding receivable (payable)	Statement of Financial Position Account	Terms	Conditions
Subsidiaries								
ICC	Advances	₱11,863	₱34,690	₱502	₱21,966	Receivables	-do-	-do-
-do-	Toll processing	153,328	–	140,935	–	Accounts payables and other current liabilities	Non-interest bearing, collectible within 30 days	-do-
IAC	Rent expense	7,320	(2,541)	–	(2,507)	-do-	-do-	-do-
do-	Advances	–	(500)	–	(500)	-do-	Non-interest bearing	-do-
CLIC	Rent expense	–	–	–	–	-do-	Renewed annually	Lease payable offset against advances to CLIC
-do-	Current Advances	-	381,808	31,753	365,889	Receivables	Non-interest bearing	Secured by property and equipment amounting to ₱300.00 million, no impairment
-do-	Non-current advances	–	–	–	–	-do-	-do-	-do-
FWBC	Sale of goods	–	13,393	509	11,954	Receivables	Non-interest bearing, collectible within 60 days	-do-
REI	Current Advances	–	(37,035)	–	(37,076)	Accounts payables and other current liabilities	-do-	Unsecured, no impairment
RFM Canning	Current Advances	–	34,813	–	34,813	Receivables	Non-interest bearing	Unsecured
Entities under common major shareholder group								
Swift Foods, Inc.	Lease income	–	6,595	236	6,592	Receivables	Non-interest bearing	Unsecured, partially impaired
RIBI	Rental Income	544	45	–	–	Receivables	Unsecured and will be settled in cash	Unsecured and will be settled in cash
RFM Foundation, Inc.	Lease income	–	–	146	–	-do-	Non-interest bearing	Unsecured, partially impaired
CSFC	Rental Income	158	35	135	102	-do-	Unsecured and will be settled in cash	Unsecured and will be settled in cash
Joey Pepperoni Pizzeria	Lease income	–	–	1,131	5,505	Receivables	Non-interest bearing	-do-
-do-	Sales of goods	–	1,396	–	–	Receivables	Non-interest bearing, collectible in 60 days	-do-

(Forward)

Related Parties	Transaction	2017 Amount	2017 Outstanding receivable (payable)	2016 Amount	2016 Outstanding receivable (payable)	Statement of Financial Position Account	Terms	Conditions
Philtown	Advances	₱–	₱128,973	₱–	₱128,973	-do-	Non-interest-bearing	Secured by a property of Philtown; due and demandable
-do-	Loans receivable	106,483	53,483	–	–	-do-	Interest bearing	Secured by a property of Philtown; due and demandable
-do-	Current advances	–	186	–	185	-do-	Non-interest bearing, collectible in 60 days	Unsecured, no impairment
Kettle Foods Corporation	Sales of goods	7,449	183	100	7,632	-do-	Non-interest bearing, collectible in 60 days	Unsecured, no impairment
Philippine Center for Entrepreneurship	-do-	–	–	–	–	-do-	Non-interest bearing, collectible in 60 days	Unsecured, no impairment
Republic Consolidated Corporation	Purchase of services	–	(22,542)	–	(22,452)	Accounts Payable and Other Current Liabilities	Interest-bearing, collectible in 60 days	-do-
Swift Foods, Inc.	Advances	–	–	–	(81)	-do-	Non-interest bearing	-do-
Others	Sales of goods	–	–	–	–	Receivables	Non-interest bearing, collectible in 60 days	Unsecured. Provided with allowance for impairment of ₱9.20 million as of December 31, 2016 and 2015
-do-	Advances	–	(13,415)	16	13,415	-do-	Non-interest bearing, collectible in 60 days	Unsecured, partially impaired
-do-	Advances	–	(10,603)	–	(10,603)	Accounts Payable and Other Current Liabilities	Non-interest bearing	Unsecured, no impairment
-do-	Purchase of services	–	(89)	–	(89)	-do-	Non-interest bearing, collectible in 60 days	Unsecured, no impairment

On October 18, 2017, REI and Philtown Properties, Inc. (Philtown) executed a loan agreement whereby REI agreed to lend Philtown a total amount of ₱82.71 million. Philtown assigned its receivables from a third party worth ₱29.17 million to secure a portion of the loan while the rest is secured by a real estate mortgage executed by Philtown. As of December 31, 2017, outstanding receivable from Philtown related to this agreement amounted to ₱53.48 million, ₱14.55 million of which is presented as part of "Other noncurrent assets" in the consolidated statements of financial position (see Note 6).

Significant transactions with subsidiaries and joint venture which have been eliminated in the consolidation:

a. Distribution services provided by the Parent Company to URICI for the export of frozen dairy dessert/mellorine whereby URICI pays service fees equivalent to 7% of the total net sales value of goods distributed. Service fees amounted to ₱30.49 million, ₱22.06 million and ₱21.06 million in 2017, 2016 and 2015, respectively.

b. In 2013, the Parent Company entered into an agreement with its subsidiary, ICC, to manufacture and store its products by providing skilled manpower, supervision, tools, equipment and all related works and services necessary to manufacture and store the products in accordance with the quality standards set by the Parent Company. Toll process fees to ICC amounted to ₱136.90 million, ₱140.85 million and ₱163.01 million in 2017, 2016 and 2015, respectively.

c. The Parent Company engages RLC for its lighterage requirements. Service fees to RLC amounted to ₱37.98 million, ₱36.40 million and ₱46.88 million in 2017, 2016 and 2015, respectively.

d. The Parent Company also leases its manufacturing facilities located in Cabuyao, Laguna from its subsidiary, Cabuyao Logistics Industrial Center. Rental for the years 2017, 2016 and 2015 amounted to ₱40.77 million, ₱39.99 million and ₱12.80 million, respectively.

e. The Parent Company leases its office space in Mandaluyong City from IAC, one of its subsidiaries. Rental for the years 2017, 2016 and 2015 amounted to ₱10.23 million, ₱10.23 million and ₱9.72 million, respectively.

Compensation of key management personnel of the Group by benefit type follows:

	2017	2016
Salaries and other short-term benefits	**₱72,127**	₱102,581
Proportionate share in share-based compensation of URICI	**836**	1,242
Retirement benefits costs	**19,748**	15,607
	₱92,711	₱119,430

22. Retirement Benefits

The Parent Company, joint venture and certain subsidiaries have funded, noncontributory defined benefit retirement plans (the Plans) covering substantially all their permanent employees.

a. Retirement Benefit Cost

The components of retirement benefit cost recognized in the consolidated statements of income for the years ended December 31 follow:

	2017	2016	2015
Current service cost	**₱21,414**	₱23,271	₱22,855
Net interest cost	**8,063**	7,092	4,747
Curtailment loss	**11,762**	–	–
Retirement benefits costs	**₱41,239**	₱30,363	₱27,602

b. Net Retirement Obligation

The details of the net retirement obligation recognized in the consolidated statements of financial position as of December 31, 2017 and 2016 follow:

	2017	2016
Defined benefit obligation	**₱356,822**	₱365,826
Fair value of plan assets	**(195,151)**	(190,708)
Net retirement obligation	**₱161,671**	₱175,118

Movement in net retirement obligation follow:

	2017	2016
January 1	**₱175,118**	₱152,502
Retirement benefit cost	**41,239**	30,363
Remeasurement loss (gain)	**(9,001)**	29,088
Transfers	**–**	1,230
Actual contribution	**(43,000)**	(27,500)
Benefits paid out of Company's funds	**(2,685)**	(10,565)
Net retirement obligation	**₱161,671**	₱175,118

Changes in the present value of the defined benefit obligation follow:

	2017	2016
January 1	**₱365,826**	₱374,812
Current service cost	**21,414**	23,271
Interest cost	**18,455**	17,727
Remeasurement loss (gain)	**(6,645)**	36,054
Benefits paid out plan assets	**(51,305)**	(74,680)
Benefits paid directly out of the Group's fund	**(2,685)**	(10,565)
Effect of curtailment	**11,762**	–
Transfers	**–**	(793)
December 31	**₱356,822**	₱365,826

Changes in the fair value of plan assets follow:

	2017	2016
January 1	**₱190,708**	₱222,310
Contributions	**43,000**	27,500
Asset return included in net interest cost	**10,392**	10,635
Benefits paid	**(51,305)**	(74,680)
Remeasurement gain	**2,356**	6,966
Transfers	**–**	(2,023)
December 31	**₱195,151**	₱190,708

Breakdown of the plan assets follow:

	2017	2016
Investments in:		
Debt securities other than bonds	**₱18,946**	₱33,863
Equity securities	**6,874**	63,114
Corporate bonds	**88,369**	44,830
Real estate	**6,195**	6,195
Unit investment trust fund	**64,219**	37,601
Cash and cash equivalents	**583**	5,430
Receivables	**10,737**	452
	195,923	191,485
Payables	**(772)**	(777)
	₱195,151	₱190,708

The plan assets of the Group and URICI are being held by a trustee bank. The investing decisions of these plan assets are made by the authorized officers of the Group and URICI. Investments in the shares of stock of the Parent Company held by the Group's retirement fund have fair values amounting to ₱6.87 million and ₱52.79 million as of December 31, 2017 and 2016, respectively. Gain on sale of the shares of stock of the Parent Company amounted to ₱6.43 million and ₱8.71 million in 2017 and 2016, respectively (nil in 2015).

As of December 31, 2017 and 2016, the principal assumptions used in determining the defined benefit obligation of the Group follow:

	December 31	
	2017	2016
Discount rate per annum	**5.00% to 5.62%**	5.21% to 5.30%
Future annual increase in salary rate	**5.00% to 5.90%**	5.00% to 5.90%

The following are expected payments to be made out of the defined benefit plan obligation in the future years:

	2017	2016
One year and less	**₱17,894**	₱18,760
Between 1 and 5 years	**104,934**	127,079
Between 5 and 10 years	**281,271**	254,228
Between 10 and 15 years	**97,634**	141,696
Between 15 and 20 years	**123,408**	111,337
Beyond 20 years	**252,969**	268,739
Total expected payments	**₱878,110**	₱921,839

The average duration of the defined benefit plan obligations as of December 31, 2017 and 2016 ranges from 16-22 years.

The Group expects to contribute ₱43.00 million to the retirement fund in 2018.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, assuming if all other assumptions were held constant:

	Discount rate		Future salary increases	
	+1%	**-1%**	**+1%**	**-1%**
2017	**(₱27,672)**	**₱25,766**	**₱27,599**	**(₱24,533)**
2016	(29,797)	30,671	34,076	(30,241)

23. Income Taxes

a. The details of the Group's net deferred income taxes per company follow:

	2017		2016	
	Net deferred income tax assets	**Net deferred income tax Liabilities**	Net deferred income tax assets	Net deferred income tax liabilities
Parent Company	**₱–**	**(₱555,953)**	₱–	(₱410,337)
URICI	**142,840**	**–**	97,831	–
IAC	**–**	**(32,038)**	–	(11,900)
CLIC	**–**	**(30,207)**	–	(29,552)
ICC	**833**	**–**	1,247	–
Others	**23**	**(37)**	22	(36)
	₱143,696	**(₱618,235)**	₱99,100	(₱451,825)

b. The components of the Group's net deferred income tax liabilities follow:

	2017	2016
Deferred income tax recognized in profit or loss:		
Deferred income tax assets on:		
Allowances for:		
Doubtful accounts	**₱49,619**	₱34,232
Inventory losses and obsolescence	**6,864**	6,992
Impairment loss on property, plant and equipment	**4,583**	8,202
Accrued advertisements and promotions	**79,658**	73,169
Accrued profit bonus	**52,040**	18,860
Unamortized past service cost	**25,245**	21,224
Net retirement obligation	**12,433**	11,501
Accrued retirement liability	**9,314**	6,770
Provision for restructuring	**6,985**	–
Others	**795**	3,443
	₱247,536	₱184,393

(Forward)

	2017	2016
Deferred income tax liabilities on:		
Net retirement obligation	**(₱25,813)**	(₱21,983)
Capitalized borrowing cost	**–**	–
Others	**(914)**	(1,092)
	(26,727)	(23,075)
Deferred income tax recognized in other comprehensive income:		
Deferred income tax asset on cumulative actuarial losses on defined benefit plan	**71,660**	74,360
Deferred income tax liability on revaluation increment on land	**(767,008)**	(575,578)
Net deferred income tax liabilities	**(₱474,539)**	(₱339,900)

c. The Group did not recognize deferred income tax assets on following:

	2017	2016
NOLCO	**₱7,458**	₱49,772
Excess MCIT	**188**	373
Allowances for:		
Doubtful accounts	**39,120**	39,120
Impairment loss on property, plant and equipment	**6,107**	6,107

NOLCO:

Inception Year	Amount	Applied/Expired	Balance	Expiry Year
2014	₱7,696	(₱7,696)	₱–	2017
2015	7,382	–	7,382	2018
2016	124	–	124	2019
2017	112	–	112	2020
	₱15,314	(₱7,696)	₱7,618	

Excess MCIT:

Inception Year	Amount	Applied/Expired	Balance	Expiry Year
2014	₱–	(₱–)	₱–	2017
2015	–	–	–	2018
2016	86	–	86	2019
2017	102	–	102	2020
	₱188	(₱–)	₱188	

d. A reconciliation of the provision for income tax computed at the statutory income tax rate of 30% based on income before income tax to the provision for income computed at the Group's effective income tax rate for the years ended December 31 follows:

	2017	2016	2015
Provision for income tax at the statutory income tax rate 30%	**₱442,461**	₱445,854	₱357,566
Additions to (reductions in) income tax resulting from:			
Dividend income exempted from income tax	**(41)**	(19)	–
Nontaxable equity in net earnings of an associate	**(3,280)**	(3,684)	(3,699)
Interest income subjected to final tax	**(10,798)**	–	–
Movement in unrecognized deferred income tax	**12,879**	–	(75,639)
Nondeductible expenses	**674**	5,801	6,491
Others	**(11,786)**	37,848	2,240
Provision for income tax	**₱430,109**	₱485,800	₱286,959

24. Contracts

a. The Parent Company entered into license agreements with Sunkist Growers, Inc., Rovio Entertainment Ltd., and Turner Broadcasting System Asia Pacific, Inc. whereby the licensors granted the Company the non-exclusive license to manufacture, market, distribute and sell the licensed products. The Company agreed to pay a fixed amount of royalty every year, as stipulated in the agreements. Unpaid royalty, included under "Other accrued expenses" account, amounted to ₱7.27 million and ₱4.76 million as of December 31, 2017 and 2016, respectively (see Note 14).

In 2016, the Parent Company's agreement with Rovio Entertainment Ltd. expired and was no longer renewed.

b. The Parent Company entered into distribution agreement with Dole Philippines, Inc. (Dole) whereby Dole appointed the Company as their distributor of their products. The agreement with Dole commenced on May 1, 2014 and expired on April 30, 2016. The Company no longer renewed its distribution agreement with Dole in 2016.

c. In 2017, the Parent Company entered into a supply agreement with Buhler Asia Pte., Ltd. for the installation and the commissioning for the equipment for hard wheat mill. The Parent Company agreed to pay in advance 90% of the contract price amounting to ₱159.16 million. The payment was recorded as part of "Other noncurrent assets" and will be reclassified to "Property, plant and equipment" account once the equipment has been received from Buhler. As of December 31, 2017, the Parent Company recognized a liability amounting to ₱17.68 million representing the remaining contract price for the committed purchase.

25. Earnings Per Share

	2017	2016	2015
Net income attributable to equity holders of the Parent Company (a)	**₱1,042,345**	₱1,001,850	₱906,496
Weighted average number of common shares outstanding (b)	**3,484,906,329**	3,493,803,604	3,500,403,866
Basic/diluted earnings per share (a/b)	**₱0.30**	₱0.29	₱0.26

The Group does not have potentially dilutive common shares in 2017, 2016 and 2015. Therefore, the basic/dilutive earnings per share are the same.

26. Financial Instruments

The following table summarizes the carrying values of the Group's financial assets and financial liabilities as of December 31:

	2017	2016
Financial Assets		
Cash on hand	**₱123,007**	₱103,619
Cash in banks and cash equivalents	**1,390,042**	1,392,935
Short-term cash investments	**39,619**	1,121,746
Loans and receivables:		
Trade receivables	**1,862,939**	2,027,265
Nontrade receivables	**36,248**	70,667
Advances to officers and employees	**33,701**	16,290
Advances to related parties	**207,587**	151,945
Other receivables	**52,648**	37,136
	3,745,791	4,921,603
AFS financial assets:		
Unquoted:		
Common shares	**4,652**	5,002
Quoted common and golf shares	**30**	30
HTM investments	**1,003,527**	57,894
	1,008,209	62,926
	4,754,000	4,984,529
Other Financial Liabilities		
Bank loans	**556,500**	460,000
Accounts payable and other current liabilities*	**3,091,861**	3,237,128
Advances from related parties	**142,169**	68,698
	₱3,790,530	₱3,765,826

**Exclusive of government payables and other nonfinancial liabilities amounting to P92.39 million and P74.43 million as of December 31, 2017 and 2016, respectively.*

Cash, cash equivalents, trade receivables, nontrade receivables, advances to officers and employees, other receivables, accounts payable and accrued liabilities, advances from related parties. The carrying amounts of these instruments approximate their fair values due to their short-term maturities and demand features.

HTM investments. The fair value of the HTM investments as of December 31, 2017 and 2016 amounted to ₱1,003.53 million and ₱57.15 million and was determined by reference to quoted market bid prices of bonds with similar terms and nature at the close of business on the reporting date (Level 1).

27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, short-term cash investments, accounts receivable, bank loans, accounts payable and accrued liabilities, and advances to and from related parties. The main purpose of these financial instruments includes raising funds for the Group's operations and managing identified financial risks. The Group has various other financial assets and financial liabilities such as other current receivables, other current assets and customers' deposits which arise directly from its operations. The main risk arising from the use of financial instruments is credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk

Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top 25% of the industry, and/or those which provide the Group with long-term loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. The Group's gross maximum exposure to credit risk is equal to the carrying amount.

The credit quality of financial assets is managed by the Group using internal credit ratings. The credit quality by class, of neither past due nor impaired financial assets as of December 31, 2017 and 2016, based on the Group's credit rating system follows:

As of December 31, 2017:

	Neither past due nor impaired		Past due but not Impaired	Past due and Individually Impaired	Total
	Excellent	Good			
Cash in banks and cash equivalents	₱1,390,042	₱–	₱–	₱–	₱1,390,042
Short-term cash investment	39,619	–	–	–	39,619
Loans and receivables:					
Trade receivables:	97,990	254,832	1,528,680	146,835	2,028,337
Nontrade receivables	–	31,941	–	4,307	36,248
Advances to officers and employees	–	28,845	–	4,856	33,701
Advances to related parties	–	207,587	–	–	207,587
Other current receivables	–	43,248	–	9,400	52,648
Held-to-maturity investments	1,003,527	–	–	–	1,003,527
	₱2,531,178	₱566,453	₱1,528,680	₱165,398	₱4,791,709

As of December 31, 2016:

	Neither past due nor impaired		Past due but not Impaired	Past due and Individually Impaired	Total
	Excellent	Good			
Cash in banks and cash equivalents	₱1,392,935	₱–	₱–	₱–	₱1,392,935
Short-term cash investments	1,121,746	–	–	–	1,121,746
Loans and receivables:					
Trade receivables	96,595	511,848	1,437,385	134,664	2,180,492
Nontrade receivables	–	70,667	–	4,307	74,974
Advances to officers and employees	–	16,290	–	4,856	21,146
Advances to related parties	–	151,945	–	–	151,945
Other current receivables	–	37,136	–	9,400	46,536
HTM investments	57,894	–	–	–	57,894
	₱2,669,170	₱787,886	₱1,437,385	₱153,227	₱5,047,668

Credit quality of cash in banks, cash equivalents and short-term cash investments are based on the nature of the counterparty and the Group's internal rating system.

Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Group if there are no predetermined defined due dates. All other financial assets that are neither past due or impaired are classified as "Good" accounts.

The aging analysis of past due but not impaired loans and receivables as of December 31 follows:

	Past due but not impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 365 days	More than 365 days	Total
2017	₱998,879	₱312,392	₱47,280	₱234,064	₱82,900	₱1,675,515
2016	502,271	216,380	414,720	158,155	145,859	1,437,385

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary. Working capital requirements, on the other hand, are adequately addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

The following tables show the maturity profile of the Group's undiscounted cash flows from financial assets used for liquidity purposes and other financial liabilities as of December 31, 2017 and 2016.

As of December 31, 2017:

	Less than 1 year	1 to less than 2 years	2 to less than 3 years	3 to less than 4 years	4 to less than 5 years	More than 5 years	Total
Financial Assets							
Cash on hand	₱123,007	₱–	₱–	₱–	₱–	₱–	₱123,007
Cash in banks and cash equivalents	1,390,042	–	–	–	–	–	1,390,042
Short-term cash investment	39,619	–	–	–	–	–	39,619
Trade receivables	1,862,939	–	–	–	–	–	1,862,939
HTM investments	310,371	70,537	422,619	–	200,000	–	1,003,527
	₱3,725,978	₱70,537	₱422,619	₱–	₱200,000	₱–	₱4,419,134
Financial Liabilities							
Bank loans**	₱693,488	₱–	₱–	₱–	₱–	₱–	₱693,488
Accounts payable and other current liabilities*	3,091,861	–	–	–	–	–	3,091,861
Advances from related parties	142,169	–	–	–	–	–	142,169
	₱3,927,518	₱–	₱–	₱–	₱–	₱–	₱3,927,518

**Excluding payable to government agencies of P82.41 million.*
***Inclusive of interest expense until maturity.*

As of December 31, 2016:

	Less than 1 year	1 to less than 2 years	2 to less than 3 years	3 to less than 4 years	4 to less than 5 years	More than 5 years	Total
Financial Assets							
Cash on hand	₱103,619	₱–	₱–	₱–	₱–	₱–	₱103,619
Cash in banks and cash equivalents	1,392,935	–	–	–	–	–	1,392,935
Short-term cash investment	1,121,746	–	–	–	–	–	1,121,746
Trade receivables	2,045,828	–	–	–	–	–	2,045,828
	₱4,664,128	₱–	₱–	₱–	₱–	₱–	₱4,664,128
Financial Liabilities							
Bank loans**	₱574,583	₱–	₱–	₱–	₱–	₱–	₱574,583
Accounts payable and other current liabilities*	3,237,128	–	–	–	–	–	3,237,128
Advances from related parties	68,698	–	–	–	–	–	68,698
	₱3,880,409	₱–	₱–	₱–	₱–	₱–	₱3,880,409

**Excluding payable to government agencies of P68.33 million.*
***Inclusive of interest expense until maturity.*

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's short-term and long-term debt obligations.

Management is tasked to minimize interest rate risk by having a mix of variable and fixed interest rates on its loans. As of December 31, 2017 and 2016, the Group's share in URICI's outstanding bank loans include only short-term loans from local banks and lending investors (see Note 15). URICI is not expecting significant exposures to interest rate risk considering the short term maturities of its bank loans.

There is no other impact on the Group's equity other than those affecting the statement of income.

Foreign exchange risk
The Group's exposure to foreign exchange risk results from the Parent Company's and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2017 and 2016.

A reasonably possible change of –/+1% in 2016 and –/+ 1% in 2015 in United States dollar (US$) exchange rate at December 31, 2017 and 2016 would lead to the following income before income tax movements in the Group's consolidated statements of income:

December 31, 2017:

		Increase (decrease) in income before income tax	
	Peso equivalent of US dollar denominated assets/liabilities	US dollar weakened by 1% against Philippine peso	US dollar strengthened by 1% against Philippine peso
Cash and cash equivalents	₱77,799	(₱778)	₱778
Trade receivables	10,293	(103)	103
Trade payables	(610)	7	(7)
	₱87,482	(₱874)	₱874

December 31, 2016:

		Increase (decrease) in income before income tax	
	Peso equivalent of US dollar denominated assets/liabilities	US dollar weakened by 1% against Philippine peso	US dollar strengthened by 1% against Philippine peso
Cash and cash equivalents	₱104,604	(₱1,046)	₱1,046
Trade receivables	9,211	(92)	92
Trade payables	(509)	5	(5)
	₱113,306	(₱1,133)	₱1,133

The exchange rate of the Peso to the US Dollar is ₱49.93 and ₱49.72 as of December 31, 2017 and 2016, respectively.

There is no other impact on the Group's equity other than those affecting the consolidated statements of income.

28. Capital Management

It is the objective of the Group to maintain a capital base that adequately services the needs of its present and future operations while keeping within the capital level required by creditors. The capital base is also sufficient to address present and future uncertainties and risks inherent in the business and changes in the economic conditions. Payment of dividends, return of capital, or issuance of shares to increase capital shall be made accordingly and as may be necessary. No changes were made in the objectives, policies and processes as of December 31, 2017 and 2016.

The table below summarizes the total capital considered by the Group:

	2017	2016
Capital stock	**₱3,500,404**	₱3,500,404
Additional paid-in capital	**2,059,437**	2,057,297
Treasury stock	**(14,327)**	(20,155)
Retained earnings	**3,851,762**	3,303,307
	₱9,397,276	₱8,840,853

29. Events after the Reporting Date

On January 31, 2018, the BOD of the Parent Company declared cash dividends equivalent to ₱0.086 per share to stockholders of record as of February 15, 2018 and payable on March 14, 2018. On the same date, the BOD of the Parent Company approved the additional appropriation of ₱300.00 million for its ongoing share buy-back program.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders
RFM Corporation
RFM Corporate Center
Pioneer corner Sheridan Streets
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of RFM Corporation and its subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A and have issued our report thereon dated April 3, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621336, January 9, 2018, Makati City

April 3, 2018

RFM CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

For the year ended December 31, 2017

Page No.

Statement of Management's Responsibility

Consolidated Financial Statements

Consolidated Statement of Management's Responsibility for Financial Statements
Report of Independent Public Accountants
Consolidated Balance Sheets as of December 31, 2017 and 2016
Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Changes in Equity for the years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015
Notes to Consolidated Financial Statements

Supplementary Schedules

A.	Financial Assets	1
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	*
C.	Amounts Receivable from Related Parties which are eliminated during Consolidation of Financial Statements	
D.	Intangible Assets – Other Assets	2
E.	Long-term Debt	3
F.	Indebtedness to Related Parties (Long-Term Loans from Related Companies)	*
G.	Guarantees of Securities of Other Issuers	*
H.	Capital Stock	*
I.	List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2017	4
J.	Reconciliation of Retained Earnings Available for Dividend Declaration	5
K.	Conglomerate Mapping	12
L.	Financial Soundness Indicators	13
		14

* *These schedules, which are required by SRC Rule68, have been omitted because they either are not applicable or does not exceed 5% of the total assets shown in the related Consolidated Balance Sheet.*

RFM CORPORATION AND SUBSIDIARIES
Schedule A. Financial Assets
For the year Ended December 31, 2017
(Amounts in Million Pesos unless otherwise stated)

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the Balance Sheet	Valued based on market quotation at end of reporting period	Income received and accrued
AFS Financial Assets				
Republic Dynamics Corporation	3,989,846	3,919	Not listed	0
PSI Technologies, Inc., (formerly PACSEM)	2,253	653	Not listed	0
Philippine Long Distance Telephone Company, Inc.	5,670	21	Yes	0
Philippine Exporters Trading Corporation	1	5	Not listed	0
Philtown Inc. Common	389,382	-	Not listed	0
Universal Rightfield	500,000	-	Not listed	0
Rizal Ligtherage Corporation	33,625	4	Not Listed	0
Wellex Industries	280,000	7	Yes	0
RFM Equities Inc.	43,375	43	Not Listed	0
Total		**4,652**		**0**

RFM CORPORATION AND SUBSIDIARIES
Schedule C. Amounts Receivable/Payable from Related Parties which are eliminated during the Consolidation of Financial Statements
For the year Ended December 31, 2017
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Additions	Amounts Collected	Amounts Written Off	Current	Non-current	Balance at the end of period
Cabuyao Logistics and Industrial Center, Inc.	366	-		-	-	-	366
Interbake Commissary Corporation	22	13	-	-	-	-	35
RFM Foods Philippines Corporation	145	-	-	-	-	-	145
Filipinas Water Bottling Company, Inc.	12	1	-	-	-		13
RFM Canning & Marketing, Inc.	35	-	-	-	-	-	35
Invest Asia Corporation	(500)	-	-	-	-	-	(500)
Intercompany Balances, net	**80**	**14**	-	-	-	-	**94**

RFM CORPORATION AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
For the year Ended December 31, 2017
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Goodwill	190	-	-	-	-	191
Trademark	2,081	-	-	-	-	2,081
Software	1	-	(1)	-	-	-
Total	**2,272**	-	-	-	-	**2,271**

RFM CORPORATION AND SUBSIDIARIES
Schedule H. CAPITAL STOCK
For the year Ended December 31, 2017

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under related Balance Sheet caption	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shared Held By		
				Related Parties	Directors, Officers and Employees	Others
Common stock – P1 par value	3,978,265,025	3,500,403,366	-	-	21,622,695	3,478,781,171
Treasury shares	-	(2,890,800)	-	-		(2,890,800)
	3,978,265,025	3,497,513,066	-	-	21,622,695	3,475,890,371

RFM CORPORATION AND SUBSIDIARIES

Schedule I. List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRS Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination	✓		
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method of Disposal		✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8 : Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception		✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations		✓	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception		✓	
	Clarification of the Scope of the Standard*	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
PFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1, Disclosure Initiative	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 : Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		✓	
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Regional Market Issue Regarding Discount Rate			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception		✓	
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*		✓	
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted*	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		✓	
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Interrelationship between PFRS 3 and PAS 40	✓		
	Amendments to PAS 40: Transfers of Investment Property*		✓	
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration*	✓		
IFRIC 23	Uncertainty over Income Tax Treatments			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

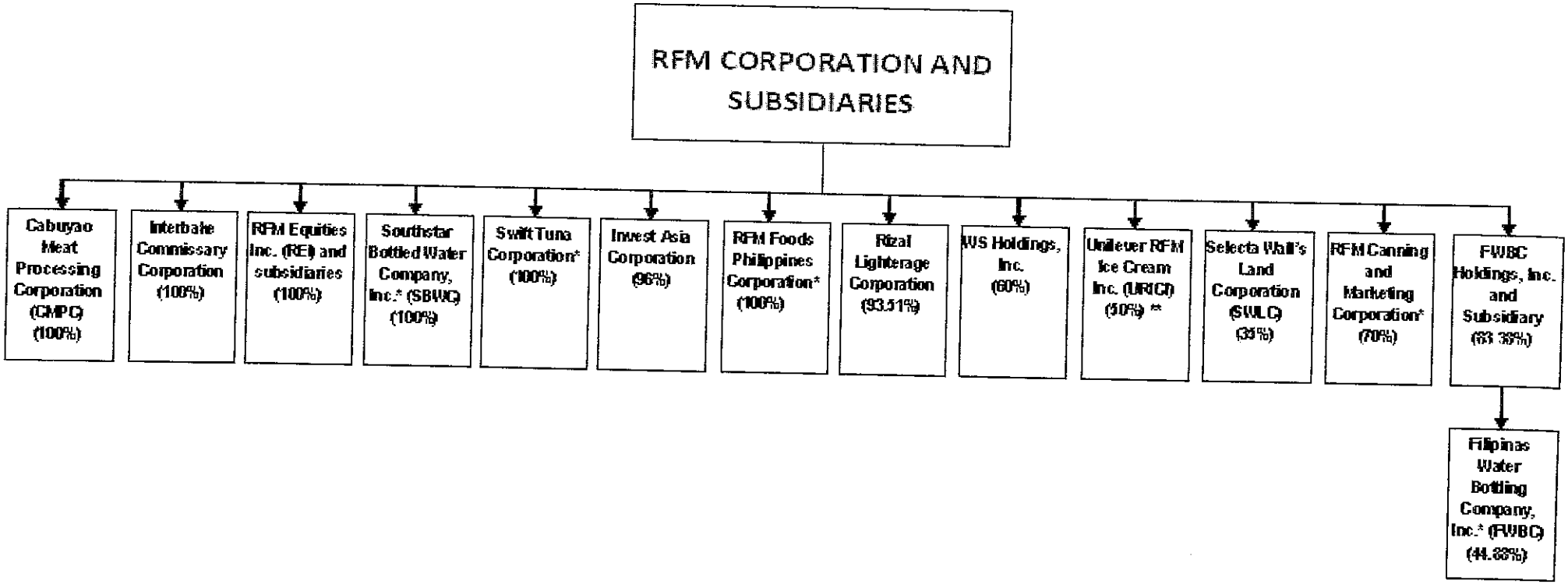
**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

RFM CORPORATION
Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
For the year Ended December 31, 2017
(Amounts in Thousand Pesos unless otherwise stated)

The reconciliation of retained earnings available for dividend declaration as of December 31, 2017 follows:

Retained earnings as of December 31, 2016	₱3,610,611
Add (less):	
Treasury Shares	(20,155)
Appropriations	(6,000)
Deferred income tax asset	(75,567)
Accumulated remeasurement loss on defined benefit pension plan closed to retained earnings	131,846
Retained earnings as adjusted to available for dividend declaration, beginning	3,640,375
Add: Net income actually earned/realized during the year	
Net income during the year closed to retained earnings	959,954
Movement in deferred income tax asset	(27,393)
	932,561
Add (less):	
Cash dividends declared during the year	(500,191)
Movement in treasury shares	5,828
Remeasurement loss on defined benefit pension plan closed to retained earnings	(8,474)
	(502,837)
Total retained earnings available for dividend declaration as of December 31, 2017	₱4,070,099

RFM CORPORATION AND SUBSIDIARIES
Schedule K. Conglomerate Mapping
As of December 31, 2017



*Dormant
** Joint Venture

RFM CORPORATION AND SUBSIDIARIES
Schedule L. Financial Soundness Indicators

		Years ended December 31		
		2017	2016	2015
1	Current Ratio	1.48	1.62	1.55
2	Debt-to-Equity Ratio	0.43	0.45	0.45
3	Asset-to-Equity Ratio	1.43	1.45	1.45
4	Interest Rate Coverage Ratio	88.91	145.28	42.18
5	Gross Profit Rate	40.66%	41.55%	37.47%
6	Net Income Rate	8.20%	7.88%	7.55%

107202018000662

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632)726-0931to39Fax:(632)725-5293Email: mis@sec.gov.ph

Barcode Page

The following document has been received:

Receiving Officer/Encoder : Ramon L. Legaspi
Receiving Branch : SEC Head Office
Receipt Date and Time : July 20, 2018 10:24:29 AM
Received From : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No.	0000012998
Company Name	RFM CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	107202018000662
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET
for
UNAUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	2	9	9	8						

Company Name

R	F	M		C	O	R	P	O	R	A	T	I	O	N		A	N	D												
S	U	B	S	I	D	I	A	R	I	E	S																			

Principal Office (No./Street/Barangay/City/Town/Province)

R	F	M		C	O	R	P	O	R	A	T	E		C	E	N	T	E	R	,		P	I	O	N	E	E	R	
C	O	R	N	E	R		S	H	E	R	I	D	A	N		S	T	R	E	E	T	S	,							
M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y															

Form Type	Department requiring the report	Secondary License Type, If Applicable
1 7 - Q	S E C	N A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
rfmmail@rfm.com.ph	(02) 631-8101	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
3,165	7/12	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique Oliver I. Rey-Matias	eoirey-matias@rfm.com.ph	(02) 631-8101	N/A

Contact Person's Address

RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE (SRC) AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarterly period ended **JUNE 30, 2018**

2. Commission Identification Number: **12998** 3. BIR Tax Identification Number: **000-064-134-000**

4. Exact name of Registrant as specified in its charter: **RFM CORPORATION**

5. **Philippines**
Province, country or other jurisdiction of incorporation or organization

6. _____ (SEC Use Only)
Industry Classification Code

7. **RFM Corporate Center, Pioneer corner and Sheridan Streets, Mandaluyong City** **1550**
Address of Registrant's principal office Postal Code

8. **0632-631-81-01**
Registrant's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Issued and Outstanding
Common Stock, ₱1.00 par value	**3,495,500,066**

11. Are any or all of these securities listed in the Philippine Stock Exchange?

Yes [✓] No [ ]

12. Indicate by check mark whether the Registrant:

a. has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines (CCP) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports): [Note: Sec. 26 of the CCP deals with reporting of election of directors or officers to the SEC; Sec. 141 with the submission of financial statements to the SEC.]

Yes [✓] No [ ]

b. has been subject to such filing requirements for the past 90 days.

Yes [✓] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements are filed as part of this form 17-Q, pages 7 to 44 and are incorporated herein by reference to said quarterly report.

Item 2. Management's Discussion and Analyses of Results of Operations and Financial Condition

Analysis of Results of Operations

YTD June 2018 vs. YTD June 2017

RFM Corporation reported a 12% growth of revenues for the first six months of 2018 for the Company which resulted to a 3% rise in net income.

Sales of the food and beverage company for the period grew from P5.7 billion to P6.3 billion pushing the company's net income to P525 million from P508 million. The company posted topline growth in most businesses including ice cream, flour, pasta, milk and private label.

First half revenues of the ice cream category leader Selecta grew 11% year on year while institutional sales including the bakery business expanded with an 8% increase.

The company's revenue from other flagship brands - Fiesta pasta, Royal pasta, White King mixes and Selecta Milk - also posted a strong 17% expansion for the six-month period.

Second Quarter 2018 vs. Second Quarter 2017

Group net income reached P314 million for the second quarter of 2018, higher by 1% over the same period last year on the back of P3.16 billion revenues, up 13% over the revenues posted for the same period last year.

The key financial performance indicators for the Company for the six-month period ended June 30, 2018 as compared to the same period in 2017, as well as the second quarter of 2018 as compared with the second quarter of 2017, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**		**For the Six-Month Period Ended**	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Net Revenues	**₱3,504**	₱3,100	**₱6,312**	₱5,654
Net Operating Margin	**444**	422	**722**	697
Net Income (Loss)	**314**	310	**525**	508
EBITDA	**547**	518	**927**	887
Current Ratio	**1.41**	1.57	**1.41**	1.57

* *Except current ratio*

1. Net Revenues
   This is the barometer of the general demand for the Company's products, reflecting their market acceptability vis-à-vis competition particularly in terms of quality, pricing, and image and perception, as well as availability of the products at the point of purchase market locations. This is of primary importance, and is regularly being monitored for appropriate action and/or improvement.

2. Net Operating Margin
   This shows the financial profitability of the primary products of the Company, after deducting the expenses related to their manufacture, distribution, and sale, as well as the general administrative costs in running the business.

3. Net Income
   This shows the over-all financial profitability of the Company, including the sale of primary and non-primary products and all other assets, after deducting all costs and expenses, interest expenses on debts and interest income on investments, as well as equity in net earnings or losses of associates.

4. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
   This is a general yet reasonable representation of the cash generated by the Company from its current business operations that can then be made available for payment of loan interests, loan principal amortization, and taxes; and any further amount in excess becomes the Company's cash profit.

5. Current Ratio
   This determines the Company's ability to meet its currently maturing obligations using its current resources.

Analysis of Financial Condition and Balance Sheet Accounts

As of June 30, 2018, the Group's Total Assets decreased slightly to P15.7 Billion compared to December 31, 2017 of P15.9 Billion primarily due to lower trade receivables.

The Group has a current ratio of 1.41 and 1.57 as of June 30, 2018 and December 31, 2017, respectively.

Notes to Financial Statements

The Company's financial statements for the second calendar quarter have been prepared in accordance with Philippine Financial Reporting Standards. The same accounting policies and methods of computation used are consistent with the most recent audited financial statements.

The Company discloses the following:

(a) There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income, or cash flows, except those stated in Management's Discussion and Analysis of Results of Operations and Financial Condition;.

(b) There are no material changes in estimates of amounts reported in prior financial periods, other than those disclosed in the most recent audited financial statements;

(c) Except as disclosed, there are no known trends, demand, commitments, events or uncertainties that may have an impact on sales and income from continuing operations;

(d) There are no issuances, repurchases and repayments of debt and equity securities other than mentioned;

(e) There are no known trends, demands, commitments, events or uncertainties that will have material impact on the Company's liquidity nor have a favorable or unfavorable impact on revenues or income from continuing operations;

(f) There are no dividends paid separately for ordinary shares and other shares;

(g) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements;

(h) Other than mentioned, there are no material changes in the business composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring, and discontinuing operations;

(i) There is no change in contingent liabilities since the most recent audited financial statements;

(j) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of June 30, 2017;

(k) There were no material off-balance sheet transactions, arrangements, obligations, and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

PART II – OTHER INFORMATION

The Company has no other pertinent information to disclose in this quarterly report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RFM CORPORATION
Registrant

ENRIQUE OLIVER I. REY MATIAS
Vice President – CFO

ATTY. JUFIL E. SIQUIAN
Assistant Vice President& Head
Corporate Legal and Labor Relations

Dated: July 20, 2018

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	Unaudited June 31, 2018	Audited December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	**₱1,661**	₱1,513
Short-term cash investment	**-**	40
Current portion of held-to-maturity investments (Note 9)	**-**	310
Accounts receivable (Note 5)	**1,853**	2,179
Inventories (Note 6)	**1,362**	1,534
Other current assets (Note 7)	**289**	324
Total Current Assets	**5,165**	5,900
Noncurrent Assets		
Available-for-sale financial assets (Note 9)	**5**	5
Held-to-maturity investments – net of current portion (Note 9)	**1,009**	693
Investments in joint venture and associates (Note 9)	**161**	152
Property, plant and equipment (Note 8)	**6,771**	6,421
Intangible assets	**2,271**	2,271
Other noncurrent assets (Note 11)	**357**	477
Total Noncurrent Assets	**10,574**	10,019
TOTAL ASSETS	**₱15,739**	₱15,919
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	**₱385**	₱556
Accounts payable and other current liabilities (Note 12)	**3,267**	3,428
Total Current Liabilities	**3,652**	3,984
Noncurrent Liabilities		
Other noncurrent liabilities (Note 13)	**725**	782
Total Noncurrent Liabilities	**725**	782
Total Liabilities	**4,377**	4,766
Equity attributable to equity holders of the Parent Company (Note 13)		
Capital stock (Note 14)	**3,500**	3,500
Additional paid-in capital (Note 14)	**2,059**	2,059
Treasury stock (Note 14)	**(23)**	(14)
Equity reserve	**(7)**	(7)
Revaluation increment on land - net of deferred income tax effect	**1,790**	1,790
Retained earnings	**4,070**	3,852
Non-controlling interests	**(27)**	(27)
Total Equity	**11,362**	11,153
TOTAL LIABILITIES AND EQUITY	**₱15,739**	₱15,919

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Millions, Except for Earnings Per share Data)

	For the Quarter Ended June 30		For the Six-Month Period Ended June 30	
	2018	2017	**2018**	2017
NET REVENUES	**₱3,504**	₱3,100	**₱6,312**	₱5,654
DIRECT COSTS AND EXPENSES	**(2,074)**	(1,789)	**(3,768)**	(3,256)
GROSS PROFIT	**1,430**	1,311	**2,544**	2,398
SELLING AND MARKETING EXPENSES	**(803)**	(726)	**(1,507)**	(1,368)
GENERAL AND ADMINISTRATIVE EXPENSES	**(177)**	(163)	**(315)**	(333)
NET OPERATING INCOME	**450**	422	**722**	697
OTHER INCOME (CHARGES) – Net (Note 18)	**22**	5	**44**	12
INCOME BEFORE PROVISION FOR INCOME TAX	**472**	427	**766**	709
PROVISION FOR INCOME TAX	**(158)**	(117)	**(241)**	(201)
NET INCOME	**₱314**	₱310	**₱525**	₱508
Attributable to:				
Equity holders of the Parent Company	**₱314**	₱310	**₱ 525**	₱ 508
Minority interests (Note 2)	–	–	–	–
	₱314	₱310	**₱ 525**	₱ 508
Basic/Diluted Earnings Per Share (Note 19)	**₱0.090**	₱0.089	**₱ 0.150**	₱ 0.145

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

	For the Quarter Ended June 30		For the Six-Month Period Ended June 30	
	2018	2017	**2018**	2017
NET INCOME	**₱314**	₱310	**₱525**	₱508
OTHER COMPREHENSIVE INCOME	**–**	–	**–**	–
Total comprehensive income for the period	**₱314**	₱310	**₱525**	₱508
Attributable to:				
Equity holders of the Parent Company	**₱314**	₱310	**₱525**	₱508
Minority interests (Note 2)	–	–	–	–
	₱314	₱310	**₱525**	₱508

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Millions)

	Attributable to Equity Holders of the Parent										
	Capital Stock	Additional paid-in capital	Treasury Share	Equity Reserve	Net Changes in Fair Value of AFS Financial Assets	Revaluation Increment	Share-based Compensation	Retained Earnings	Total	Minority Interests	Total Equity
BALANCES AT JANUARY 1, 2018 (Audited)	**₱3,500**	**₱2,059**	**₱(14)**	**₱(7)**	**₱–**	**₱1,790**	**₱–**	**₱3,852**	**₱11,180**	**₱(27)**	**₱11,153**
Net income for the period	–	–	–	–	–	–	–	**525**	**525**	–	**525**
Cash dividends	–	–	–	–	–	–	–	**(307)**	**(307)**	–	**(307)**
Purchase of treasury stock	–	–	**(29)**	–	–	–	–	–	**(29)**	–	**(29)**
Sale of treasury stock	–	–	**20**	–	–	–	–	–	**20**	–	**20**
Effect of adoption of Revised PAS 19	–	–	–	–	–	–	–	–	–	–	–
BALANCES AT JUNE 30, 2018 (Unaudited)	**₱3,500**	**₱2,059**	**₱(23)**	**₱(7)**	**₱–**	**₱1,790**	**₱–**	**₱4,070**	**₱11,389**	**₱(27)**	**₱11,362**
BALANCES AT JANUARY 1, 2017 (Audited)	**₱3,500**	**₱2,057**	**₱(20)**	**₱(7)**	**₱–**	**₱1,343**	**₱–**	**₱3,303**	**₱10,176**	**₱(27)**	**₱10,149**
Net income for the period	–	–	–	–	–	–	–	**508**	**508**	–	**508**
Cash dividends	–	–	–	–	–	–	–	**(299)**	**(299)**	–	**(299)**
Purchase of treasury stock	–	–	**(40)**	–	–	–	–	–	**(40)**	–	**(40)**
Sale of treasury stock	–	–	**37**	–	–	–	–	–	**37**	–	**37**
Effect of adoption of Revised PAS 19	–	–	–	–	–	–	–	–	–	–	–
BALANCES AT JUNE 30, 2017 (Unaudited)	**₱3,500**	**₱2,057**	**₱(23)**	**₱(7)**	**₱–**	**₱1,343**	**₱–**	**₱3,512**	**₱10,382**	**₱(27)**	**₱10,355**

RFM CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	For the Period Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱767**	₱709
Adjustments for:		
Depreciation and amortization	**205**	190
Operating income before working capital changes	**972**	899
Decrease (increase) in:		
Accounts receivable	**343**	571
Inventories	**171**	(107)
Other current assets	**327**	(33)
Decrease in accounts payable and other current liabilities	**(409)**	(699)
Net cash from operating activities	**1,404**	631
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, net	**(555)**	(287)
Decrease (increase) in other noncurrent assets	**112**	(43)
Decrease (increase) in short-term cash investment	**40**	849
Purchase of held-to-maturity investments	**(316)**	(639)
Net cash used in investing activities	**(719)**	(120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank loans	**(172)**	(171)
Dividends paid	**(301)**	(296)
Purchase of treasury stock, net	**(8)**	(3)
Increase in other noncurrent liabilities	**(56)**	5
Net cash used financing activities	**(537)**	(465)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**148**	46
CASH AND CASH EQUIVALENTS, JANUARY 1	**1,513**	1,496
CASH AND CASH EQUIVALENTS, JUNE 30	**₱1,661**	₱1,542

See accompanying Notes to Unaudited Consolidated Financial Statements.

1. Corporate Information

Corporate Information

RFM Corporation (the Parent Company) was incorporated on August 16, 1957 and registered with the Philippine Securities and Exchange Commission (SEC). On July 9, 2007, the SEC approved the extension of the Company's corporate life from August 22, 2007 to October 13, 2056. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed in the Philippine Stock Exchange (PSE) starting in 1966. The Parent Company is mainly involved in the manufacturing, processing and selling of wheat, flour and flour products, pasta, milk, juices, margarine, and other food and beverage products. The Parent Company and its subsidiaries are collectively referred to as the Group.

The principal office address of the Parent Company is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City

2. Summary of Significant Accounting and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for the Group's land, which are stated at appraised values, and available-for-sale (AFS) financial assets that are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional currency. All values are rounded off to the nearest thousand pesos (₱000), except for the number of shares or when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the SEC which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements*, with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) (see Note 11).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

  (a) Classification and measurement
  Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

  Debt instruments which are currently held as held-to-maturity instruments under PAS 39 are expected to qualify for amortized cost measurement as these are held with the intention to collect contractual cash flows until maturity.

  (b) Impairment
  PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality.

  (c) Hedge Accounting
  The Group has no existing hedge relationships as of December 31, 2017. The Group assesses that the hedging requirements of PFRS 9 will not have a significant impact on the Group's consolidated financial statements.

  The Group continues to study the impact of the adoption of PFRS 9.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Group is currently assessing the impact of adopting PFRS 15.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendments are not applicable to the Group since none of the entities within the Group are considered as venture capital organization or other qualifying entities.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The adoption of these amendments is not expected to have any significant impact on the consolidated financial statements.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.
  The adoption of these amendments is not expected to have any significant impact on the consolidated financial statements since the Group accounts for its interests in associates or joint ventures using the equity method or, as applicable, the proportionate consolidation method as allowed by the SEC.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group prepared for the same reporting year as the Parent, using consistent accounting policies.

The consolidated subsidiaries, which are all incorporated in the Philippines, and the effective percentages of ownership as of June 30, 2018 and 2017 are as follows:

	Percentage of ownership
Cabuyao Logistics and Industrial Center, Inc. (CLIC)	**100.00**
Interbake Commissary Corporation (ICC)	**100.00**
RFM Equities, Inc. (REI)	**100.00**
RFM Foods Philippines Corporation (RFM Foods)*	**100.00**
Southstar Bottled Water Company, Inc. (Southstar)*	**100.00**
Swift Tuna Corporation (Swift Tuna)*	**100.00**
Invest Asia Corporation (Invest Asia)	**96.00**
Rizal Lighterage Corporation (RLC)	**93.51**
FWBC Holdings, Inc. *	**83.38**
Filipinas Water Bottling Company, Inc. (FWBC)*	**44.88**
RFM Canning and Marketing, Inc. (RFM Canning)*	**70.00**
WS Holdings, Inc. (WSHI)	**60.00**

**Dormant*

Subsidiaries

Subsidiaries are entities controlled by the Parent Company. The Parent Company controls an investee if, and only, if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and consolidated comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Consolidated financial statements are prepared for the same reporting period as the parent company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments where necessary are made to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in consolidated statement of comprehensive income to consolidated statement of income or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling interests

Non-controlling interests represent the portion of equity not attributable to the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interest are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within the equity section of consolidated statement of financial position and consolidated statement of changes in equity, separately from the equity attributable to equity holders of the Parent Company.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value, at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 in the consolidated statement of income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU), or group of CGU's that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been

allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every reporting date.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets including deferred taxes are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities including deferred taxes as noncurrent.

Investments in Joint Ventures and Associate

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries (e.g., contractual arrangements, voting rights and potential voting rights).

The Group's investments in joint venture and associate are accounted for using the equity method except for its investment in URICI, a joint venture, which is accounted for using the proportionate consolidation method as permitted by the SEC. This method involves consolidating a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the Group's consolidated financial statements on a line-by-line basis.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the financial performance of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its

share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income under "Other income (charges)" and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method and the proportionate consolidation method for the investment in URICI, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in the associate and joint ventures are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and which are subject to an insignificant risk of changes in value.

Short-term Cash Investments

Short-term cash investments are short term placements with maturities of three months but less than one year from date of acquisition. The Group earns interest at the respective short-term deposit rates.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate), loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate) and other financial liabilities. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of June 30, 2018 and December 31, 2017, the Group has no financial assets and financial liabilities at FVPL.

"Day 1" difference

Where the transaction price in a non-active market is different than the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As of June 30, 2018 and December 31, 2017, the Group's loans and receivables include cash and cash equivalents, short-term cash investments, trade receivables, nontrade receivables, advances to related parties and other receivables.

AFS financial assets

AFS financial assets are non-derivative financial assets are designated as AFS when they are not classified in any of the three other categories. The Group classifies financial assets as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated other comprehensive income as "Net changes in fair value of AFS financial assets". When the financial asset is disposed of, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method. Dividends earned on financial assets are recognized in the consolidated statement of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investments. The major factor of this decision is whether or not the Group will experience inevitable further losses on investments. These financial assets are classified as noncurrent unless there is intention to dispose of such assets within 12 months from the reporting date.

AFS financial assets in unquoted equity securities are carried at cost, less any allowance for impairment.

As of June 30, 2018 and December 31, 2017, the Group's AFS financial assets include investments in unquoted common shares and quoted golf club and other shares.

HTM Investments

HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities and which investments the Group has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs.

The Group's investment in bonds as of June 30, 2018 and December 31, 2017 is classified under this category.

Embedded derivatives

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. In measuring the embedded derivatives, the Group takes into account the probability that the conditions (e.g., event of default) triggering the exercise of the derivatives will happen in the future. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Other financial liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals).

The financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Financial liabilities are classified as current, except for maturities greater than 12 months after the reporting date. These are classified as noncurrent liabilities.

As of June 30, 2018 and December 31, 2017, the Group's other financial liabilities include bank loans, accounts payable and other current liabilities (excluding payables to government agencies), security deposit, and advances from related parties.

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Financial assets at amortized cost

The Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of income. Interest income (recorded as interest and financing income in the consolidated statement of income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to interest and financing income in the consolidated statement of income.

AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income.

Impairment losses on equity investments are recognized in the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the product to its present location and condition are accounted for as follows:

Finished goods and goods in process	-	determined using the moving average method; cost includes direct materials, direct labor and a proportion of manufacturing overhead costs based on normal operating capacity. For goods in process, cost includes the applicable allocationof fixed and variable overhead costs.
Raw materials, spare parts and supplies	-	purchase cost using the moving average method

NRV of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

For raw materials, NRV is the current replacement cost. In case of spare parts and supplies, NRV is the estimated realizable value of the inventories when disposed of at their condition at the reporting date.

An allowance for inventory obsolescence is provided for slow-moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation.

Other Current Assets

Other current assets include prepaid expenses, deposit on purchases of inventories, tax credits and input VAT.

Prepaid expenses. These are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other noncurrent assets.

Deposit on purchases of inventories. This account comprises of advance payments to suppliers for payments on goods to be purchased in connection with the Group's operations. These are reclassified as part of inventory upon delivery of the related asset.

Value-added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Other Noncurrent Assets

Other noncurrent assets include security deposits and deposit on purchases of property, plant and equipment.

Deposit on purchases of property plant and equipment. This account comprises of advance payments to contractors for the construction and development of property, plant, and equipment. These are reclassified as part of property, plant and equipment upon the completion or delivery of the related asset.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, and any impairment in value. The initial cost of items of property, plant and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property, plant and equipment.

Land is stated at appraised value based on a valuation performed by an independent firm of appraisers. The increase in the valuation of land is credited to "Revaluation increment on land" account, net of deferred income tax effect, and presented under the equity section of the consolidated statement of financial position.

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through the consolidated statement of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Land improvements	5 to 20
Silos, buildings and improvements	5 to 30
Machinery and equipment	5 to 25
Office furniture and fixtures	2 to 10
Transportation and delivery equipment	5

Leasehold improvements are depreciated over the life of the assets or the lease term, whichever is shorter.

Construction in progress are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. Construction in progress are reclassified into appropriate class of property, plant and equipment when the relevant assets are completed and available for use.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal. Fully depreciated assets are in the accounts until they are no longer in use and no further depreciation is recognized in the consolidated statement of income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives (e.g., computer software) are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Group amortizes computer software over three years.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives such as trademark and goodwill are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life of trademark is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs:

(i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred;
(ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and
(iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Where funds are borrowed specifically to finance a project, the amount capitalized represents actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is determined by applying the capitalization rate to the expenditures on the asset. The amount of capitalized borrowing cost, though, cannot exceed the actual borrowing cost incurred during the period.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Nonfinancial Assets

The carrying values of investments in joint ventures and investment in an associate, property, plant and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Trademark and goodwill are tested for impairment at least annually or when there is an identified indicator of impairment.

If any such indication exists or where the carrying value exceeds the recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

The recoverable amount of an asset or CGU is the greater of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Customers' Deposits

Customers' deposits represent advance payments from customers which will be applied against the related receivables upon delivery of goods.

Capital Stock

Capital stock is stated at par value for all shares issued and outstanding. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case shares are issued to extinguish or to settle the liability of the Parent Company, the share shall be measured at either the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock

Own equity instruments which are reacquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying value and the consideration, if reissued, is recognized in the "Additional paid-in capital" account. The cost of treasury stock sold or cancelled is determined on a first-in, first-out basis.

When the shares are retired, the capital stock account is reduced by its par value, and the excess of cost over par value upon retirement is debited to "Additional paid-in capital" to the extent of the specific or average additional paid-in capital when the shares were issued and to the retained earnings for the remaining balance.

Equity Reserve

Equity reserve is the difference between the acquisition cost of an entity under common control and the Parent Company's proportionate share in the net assets of the entity acquired as a result of a business combination accounted for using the pooling of interests method. Equity reserve is derecognized when the subsidiary is deconsolidated, which is the date on which control ceases.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, effect of changes in accounting policy and other capital adjustments.

Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved and declared by the BOD of the Parent Company. Stock dividends are treated as transfers from retained

earnings to paid-in capital stock when approved and declared by the BOD and the stockholders representing at least two-thirds of the outstanding capital stock.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting period.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Group by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS is calculated in the same manner, adjusted for the effects of any dilutive potential common shares. Where the effect of the dilutive potential common shares would be anti-dilutive, basic and diluted earnings per share are stated at the same amount.

The Group does not have potential dilutive common shares.

Revenue Recognition

Revenue from sale of goods and services from manufacturing and service operations is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, value-added tax (VAT), and returns. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Sale of goods (Manufacturing)

Revenue is recognized, net of applicable discounts, when the significant risks and rewards of ownership of the goods have passed to the buyer and there is actual delivery made and the same is accepted by the buyer.

Sale of services (Service)

Revenue is recognized upon performance of services in accordance with the substance of the relevant agreements.

Rent

Rent income is recognized on a straight-line basis over the terms of the lease.

Interest and financing income

Interest income is recognized as the interest accrues using the EIR method.

Dividend income

Dividend income on investments in shares of stock is recognized when the Group's right to receive the payment is established, which is the date when the dividend declaration is approved by the investee's BOD and/or the stockholders.

Cost of Goods Sold

Cost of goods sold is recognized when the related goods are sold.

Selling and Marketing and General and Administrative Expenses

Selling and marketing expenses are costs incurred to sell or distribute the goods. It includes export and documentation processing and delivery, among others. General and administrative expenses constitute costs of administering the business. These are expensed as incurred.

Short-term Employee Benefits

Short-term employee benefits include salaries and wages, vacation leave and sick leave benefits and other benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related services. These are recognized in the consolidated statements of income in the appropriate expense categories.

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefits costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized in other comprehensive income and transferred to retained earnings in the period in which they arise. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Leases where lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credit from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT], and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside the consolidated statement of income is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Foreign Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

When a gain or loss on a non-monetary item is recognized in the consolidated statement of comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the consolidated statement of income, any exchange component of that gain or loss shall be recognized in the consolidated statement of income.

Provision and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The expense relating to any provision is presented in the parent company statement of income, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Events after the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the group company financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to consolidated financial statement when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Group to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the consolidated financial statements when they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of useful life of trademark

The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be appropriate. When there are events that indicate that the indefinite useful life assessment is no longer appropriate, the useful life assessment will be changed from indefinite to finite.

Based on analysis of relevant factors indicated below, management has assessed that there is no foreseeable limit to the period over which the trademark is expected to generate cash inflows for the Group:

- Management does not expect to encounter significant difficulties in renewing the registration of the trademark.
- Management has assessed that the cost of renewing the trademark as insignificant when compared with the economic benefits expected to flow to the Group from the continued use of the trademark.
- Management is committed to continue to invest for the long term to extend the period over which the trademark is expected to continue to provide economic benefits.

Consequently, management assessed that the trademark has an indefinite useful life as of June 30, 2018 and December 31, 2017.

Distinction between Investment Properties and Owner-occupied Properties

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation at the reporting date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed as follows:

Estimation of allowance for doubtful accounts

The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessments. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. If no future cash flows is expected, impairment loss is equal to the carrying balance of the receivables. Factors considered in individual assessment are payment history, inactive accounts, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile.

Determination of NRV of inventories

The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Estimation of useful lives of property, plant and equipment

The Group estimates the useful lives of depreciable property, plant and equipment based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa.

Valuation of land under revaluation basis

The Group's parcels of land are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The revaluation is performed by professionally qualified appraisers and uses the Sales Comparison Approach (see Note 12). Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the reporting date.

Impairment of trademark and goodwill

The Group reviews for impairment the carrying value of trademark and goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of trademark and goodwill annually every reporting period.

For purposes of impairment testing of trademark, the most appropriate valuation approach used is based on the circumstances relevant to the Group and based on the extent of available information. The Group determined that the recoverable amount of the trademark with infinite useful life is fair value less cost of disposal. The fair value of the trademark was calculated using relief from royalty method that considers royalty savings accruing arising from the ownership of the trademark. Management assessed that the costs of disposal, which mainly pertain to the cost of transferring the certificate of registration with the Intellectual Property Office and documentary stamp tax, to be insignificant.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. The Group determined that the recoverable amount of the goodwill is value-in-use. Value-in-use calculation is based on a discounted cash flow model. The recoverable amount is sensitive to the discount rate used and the expected future cash in-flows and the growth rates. Assessments require the use of estimates and assumptions such as discount rates, future capital requirements and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less

than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized.

Recognition of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and adjusts the balance of deferred income tax assets to the extent that it is probable that the Group will be able to utilize the tax benefits arising from these deferred income tax assets and that sufficient future taxable profits are available for the utilization of the deferred income tax assets recognized.

Estimation of retirement benefit obligation

The determination of the Group's retirement benefit obligation depends on the selection by management of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 22 and include, among others the discount rate and rate of salary increase.

Estimation of provisions

The estimate of the probable costs for the resolution of possible third party claims has been developed in consultation with outside consultant/legal counsel handling the Group's defense on these matters and is based upon an analysis of potential results. When management and its outside consultant/legal counsel believe that the eventual liabilities under these and any other claims, if any, will not have a material effect on the consolidated financial statements, no provision for probable losses is recognized in the Group's consolidated financial statements. The amount of provision is being reassessed at least on an annual basis to consider new relevant information.

4. Segment Information

The Group's management reports its operating business segments into the following: (a) consumer business, (b) institutional business, and (c) other operations. The consumer business segment manufactures ice cream products, milk and juices, and sells the latter together with pasta and rice-based mixes. The institutional business segment primarily manufactures flour and bread products, pasta and rice-based mixes but only sells flour and bread products. Other segments consist of lighterage, office space leasing and other services shown in aggregate as "Other operations". These are the operating segments reported to the chief operating decision maker.

The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. All operating business segments used by the Group meet the definition of reportable segment under PFRS 8, *Segment Reporting*.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade, wages and taxes currently payable and accrued liabilities.

Intersegment transactions, i.e., segment revenues and segment expenses, include transfers between business segments. Those transfers are eliminated in consolidation and reflected in the "eliminations" column.

The Group does not have a single external customer from which revenue generated amounted to 10% or more of the total revenue of the Group.

Information with regard to the Group's significant business segments follows:

For the Quarter Ended June 30, 2018

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱881	₱2,615	₱8	₱–	**₱3,504**
Intersegment sales	–	–	58	(58)	**–**
	₱881	₱2,615	₱66	₱(58)	**₱3,504**
Results					
Income (loss) from operations	₱93	₱351	₱1	₱4	**₱449**
Other income (charges) - net					**23**
Provision for income tax					**(158)**
Net income					**314**
Other information					
Segment assets	₱12,876	₱20,648	₱7,151	₱(26,108)	**₱14,567**
Investments	–	315	2,071	(1,216)	**1,170**
Consolidated Total Assets	₱12,876	₱20,963	₱9,222	₱(27,324)	**₱15,737**
Consolidated Total Liabilities					**₱4,377**
Depreciation and amortization					**₱103**

For the Six-Month Period Ended June 30, 2018

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱1,718	₱4,576	₱18	₱–	**₱6,312**
Intersegment sales	–	–	113	(113)	**–**
	₱1,718	₱4,576	₱131	(₱113)	**₱6,312**
Results					
Income (loss) from operations	₱183	₱527	₱5	₱6	**₱721**
Other income (charges) - net					**45**
Provision for income tax					**(241)**
Net income					**525**
Other information					
Segment assets	₱12,876	₱20,648	₱7,151	₱(26,108)	**₱14,567**
Investments	–	315	2,071	(1,216)	**1,170**
Consolidated Total Assets	₱12,876	₱20,963	₱9,222	₱(27,324)	**₱15,737**
Consolidated Total Liabilities					**₱4,377**
Depreciation and amortization					**₱205**

For the Quarter Ended June 30, 2017

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱833	₱2,258	₱9	₱–	**₱3,100**
Intersegment sales	–	–	59	(59)	**–**
	₱833	₱2,258	₱68	₱(59)	**₱3,100**
Results					
Income (loss) from operations	₱109	₱311	₱(1)	₱3	**₱422**
Other income (charges) - net					**5**
Provision for income tax					**(117)**
Net income					**310**
Other information					
Segment assets	₱11,572	₱16,940	₱7,928	₱(23,011)	**₱13,429**
Investments	–	315	1,755	(1,215)	**855**
Consolidated Total Assets	₱11,572	₱17,255	₱9,683	₱(24,226)	**₱14,284**
Consolidated Total Liabilities					**₱3,929**
Depreciation and amortization					**₱96**

For the Six-Month Period Ended June 30, 2017

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱1,596	₱4,037	₱21	₱–	**₱5,654**
Intersegment sales	–	–	112	(112)	**–**
	₱1,596	₱4,037	₱133	(₱112)	**₱5,654**
Results					
Income (loss) from operations	₱239	₱448	₱5	₱5	**₱697**
Other income (charges) - net					**12**
Provision for income tax					**(201)**
Net income					**508**
Other information					
Segment assets	₱11,572	₱16,940	₱7,928	₱(23,011)	**₱13,429**
Investments	–	315	1,755	(1,215)	**855**
Consolidated Total Assets	₱11,572	₱17,255	₱9,683	₱(24,226)	**₱14,284**
Consolidated Total Liabilities					**₱3,929**
Depreciation and amortization					**₱190**

5. Accounts Receivable

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
Trade receivables	**₱1,683**	₱2,028
Advances to related parties	**201**	208
Other receivables	**119**	108
	2,003	2,344
Less allowance for doubtful accounts	**150**	165
	₱1,853	₱2,179

6. Inventories

This account includes finished goods and goods in process, raw materials, and spare parts and supplies.

7. Other Current Assets

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
Deposits on purchases	**₱72**	₱117
Creditable withholding taxes	**30**	87
Input VAT	**39**	17
Prepaid expenses and other current assets	**124**	78
Others	**24**	25
	₱289	₱324

8. Property, Plant and Equipment

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
Property, plant and equipment		
At cost	**₱3,653**	₱3,303
At appraised value	**3,118**	3,118
	₱6,771	₱6,421

9. Investments

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
AFS financial assets	**₱5**	₱5
Investments in associates	**161**	152
	₱166	₱157

10. Interest in a Joint Venture Proportionately Consolidated

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (ULP), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and ULP, the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱5,296.27 million and ₱3,920.01 million as of December 31, 2016 and 2015, respectively.

On October 1, 2012, the Parent Company requested for an exemptive relief from the adoption of PFRS 11 to its investment in URICI from the SEC. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 to its investment in URICI on the following grounds:

- Material impact
  The transition from the proportionate consolidation method to equity method in accounting for the Parent Company's interest in URICI would materially affect the Parent Company's consolidated financial statement line items decreasing revenue, gross profit, net operating income, gross assets and gross liabilities.

- Peculiarities of the arrangement
  a. The trademark agreement indicates that URICI can use "Selecta" licensed trademarks, trade names, logos, designs, symbols, words or devices other than the marks only upon approval of the Parent Company. This is an indication that the Parent Company has an indirect control on the activities being performed under the joint arrangement.

     The use of the trademark license by URICI is under the control of the Parent Company. Accordingly, the main products produced by URICI must conform to the quality standards of the Parent Company.

  b. URICI does not own any real property and instead, has a lease agreement with SWLC, the lessor. SWLC is 35% and 25% owned by domestic corporations, the Company and WS Holdings, Inc. (WSHI), respectively, and 40% owned by Unilever, a foreign corporation. WSHI is 60% owned by the Parent Company. Thus, the Parent Company indirectly controls SWLC, the owner of the real property being leased and used by URICI in its business.

11. Other Noncurrent Assets

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
Deferred income tax assets – net	**₱216**	₱144
Other noncurrent assets	**141**	333
	₱357	₱477

12. Accounts Payable and Other Current Liabilities

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
Accounts payable and accrued liabilities	**₱2,825**	₱3,126
Income tax payable	**169**	226
Advances from related parties	**230**	58
Customers' deposits	**43**	18
	₱3,267	₱3,428

13. **Other Noncurrent Liabilities**

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(amounts in millions)	
Deferred income tax liabilities	**₱599**	₱618
Net pension obligation	**124**	162
Security deposits	**2**	2
	₱725	₱782

14. **Equity**

Capital Stock
As of June 30, 2017 and December 31, 2016, the Parent Company has 3,978,265,025 authorized common stock with ₱1 par value. Issued and outstanding common stocks were 3,495,626,266 and 3,496,240,866 shares as of June 30, 2017 and December 31, 2016, respectively.

Below is a summary of the capital stock movement of the Parent Company:

Year	Date of Transaction	Common Stock Transactions	
1993		185,800,356	
1994	August 3, 1994	93,304,663	(a)
1995	April 7, 1995	1,116,420,076	(b)
1997	February 25, 1997	5,950,650	(c)
1998		20,042,392	(c)
1999		1,804,979	(c)
2000	July 21, 2000	229,582,173	(d)
2000	December 14, 2000	45,252,983	(d)
2001		21,950,505	(c)
2002		195,891,163	(c)
2006	March 17, 2006	47,857,244	(d)
2008	January 9, 2008	1,963,857,184	(e)
2008	July 29, 2008	(767,310,502)	(f)
2014	March 24,2014	340,000,000	(g)
2016	Various	(74,973,600)	(h)
2016	Various	70,810,600	(h)
2017	Various	(26,592,400)	(i)
2017	Various	27,864,600	(i)
2018	Various	(6,213,000)	(j)
2018	Various	4,200,000	(j)
		3,495,500,066	

(a) On July 28, 1994, the SEC approved the Parent Company's declaration of a 50% stock dividend.
(b) On April 7, 1995, the SEC approved a 5-for-1 stock split for the common stock, effectively reducing the par value from ₱10.00 to ₱2.00.
(c) This is the result of the conversion of Parent Company's preferred shares to common shares. Conversion of shares was made at various dates within the year.
(d) Information on the offer price is not available since the shares were not issued in relation to a public offering.
(e) On June 28, 2007, the SEC approved the 2-for-1 stock split for the common stock, effectively reducing the par value from ₱2.00 to ₱1.00.
(f) Cost of retired shares amounted to ₱991.76 million.
(g) Follow-on offering through a placing transaction with several existing shareholders
(h) Purchased ₱74.97 million treasury stock amounting to ₱313.68 million on various dates in 2016. Re-issued 70.81 million treasury stock amounting to ₱302.23 million on various dates in 2016 resulting in excess of issue price over the cost of treasury stock amounting to ₱8.71 million which is presented under "Additional paid-in capital" account in equity.
(i) Purchased ₱26.59 million treasury stock amounting to ₱121.80 million on various dates in 2017. Re-issued 27.86 million treasury stock amounting to ₱129.76 million on various dates in 2017 resulting in excess of issue price over

the cost of treasury stock amounting to ₱2.14 million which is presented under "Additional paid-in capital" account in equity.

(j) Purchased ₱6.21 million treasury stock amounting to ₱29.29 million on various dates in 2018. Re-issued 4.20 million treasury stock amounting to ₱20.68 million on various dates in 2018 resulting in excess of issue price over the cost of treasury stock amounting to ₱.22 million which is presented under "Additional paid-in capital" account in equity.

On August 28, 2013, the Board of Directors approved the amendment of the Article X of the Articles of Incorporation of the Parent Company removing the pre-emptive right of the stockholders on all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the Board of Directors.

Deposit for stock subscriptions

On November 28, 2013, the Board of Directors approved the proposed issuance of 340 million shares of capital stock to its existing shareholders, namely, Horizons Realty, Inc., BJS Development Corporation, Triple Eight Holdings, Inc. and RPMC Resources, Inc. at the price of ₱4.77 per share. The said shares will be issued pursuant to the equity fund raising of the Parent Company consisting of a placing and subscription transaction which will be implemented in two concurrent stages comprising of: (a) the offer and sale by the said existing shareholders not exceeding 450 million of their existing shares in the Parent Company ("the placement tranche") and (b) as part of the transaction, the subscription by the selling shareholders and the issuance by the Parent Company to the selling shareholders of unissued common shares at most in the same number and share price as the shares sold in the placement tranche ("the subscription tranche"), with such new common shares being listed as soon as practicable thereafter. In view of the foregoing, the Parent Company wrote to the SEC on December 4, 2013 requesting that the proposed issuance of the 340 million common shares be exempted from the registration requirements under the Securities Regulation Code (SRC).

The placing agreement for the placing transaction was executed by and among the Parent Company, the placing agent and the aforementioned shareholders on October 3, 2013, whereas the subscription agreement for the subscription transaction was executed between Parent Company and the shareholders on December 9, 2013.

On January 2014, the SEC has approved the request for exemption for registration requirements under the SRC. The amount received for the stock subscription, net of transaction costs, in relation to the subscription tranche amounted to ₱1,599.94 million, was presented as deposit for stock subscriptions in the 2014 and 2013 consolidated balance sheet.

Retained Earnings

On January 31, 2018 the BOD approved the declaration of ₱0.085710 cash dividend per share or a total of ₱300.02 million to its stockholders as of March 14, 2018.

On September 27, 2017 the BOD approved the declaration of ₱0.057500 cash dividend per share or a total of ₱200.19 million to its stockholders as of November 8, 2017.

On February 14, 2017 the BOD approved the declaration of ₱0.08576 cash dividend per share or a total of ₱299.99 million to its stockholders as of March 10, 2017.

On August 24, 2016 the BOD approved the declaration of ₱0.050000 cash dividend per share or a total of ₱174.27 million to its stockholders as of September 08, 2016.

On February 24, 2016 the BOD approved the declaration of ₱0.077900 cash dividend per share or a total of ₱270.50 million to its stockholders as of March 10, 2016.

On October 1, 2015 the BOD approved the declaration of ₱0.030876 cash dividend per share or a total of ₱108.08 million to its stockholders as of October 15, 2015.

On February 27, 2015 the BOD approved the declaration of ₱0.037 cash dividend per share or a total of ₱129.51 million to its stockholders as of March 13, 2015.

On October 1, 2014 the BOD approved the declaration of ₱0.032842 cash dividend per share or a total of ₱114.96 million to its stockholders as of October 16, 2014.

On February 26, 2014 the BOD approved the declaration of ₱0.034515 cash dividend per share or a total of ₱120.82 million to its stockholders as of April 7, 2014.

On August 28, 2013 the BOD approved the declaration of ₱0.027256 cash dividend per share or a total of ₱86.14 million to its stockholders as of September 11, 2013.

On April 30, 2013 the BOD approved the declaration of ₱0.032369 cash dividend per share or a total of ₱102.30 million to its stockholders as of May 16, 2013.

The Group's retained earnings as of December 31, 2016 is restricted for the payment of dividends to the extent of the cost of treasury stock, deferred income tax assets, undistributed equity in net earnings of an associate and undistributed earnings of the subsidiaries. Retained earnings available for dividend declaration as of December 31, 2016 amounted to ₱3.71 billion.

15. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The transactions from related parties are made under normal commercial terms and conditions. Outstanding balances as at June 30, 2018 and 2017 are unsecured and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. Advances to/from related parties are noninterest-bearing and collectible/payable on demand.

Significant transactions with subsidiaries and joint venture which have been eliminated in the consolidation:

a. Sales and purchases of products and services to/from the Parent Company and its subsidiaries:

			For the period ended June 30	
Revenue earned by:	**Costs incurred by:**	**Nature**	**2018**	2017
Parent Company	URICI	Service fee and commission	**₱6,607**	₱4,880
ICC	Parent Company	Toll processing	**65,752**	70,016
RLC	Parent Company	Lighterage	**20,481**	16,388
CLIC	Parent Company	Rent	**20,303**	20,472
IAC	Parent Company	Rent and utilities charge back	**5,113**	5,113

b. The Parent Company utilizes RLC for its lighterage requirements.

c. The Parent Company has availments/extensions of both interest-bearing and non-interest-bearing cash advances mainly for working capital purposes and investment activities from/to subsidiaries and other related parties with no fixed repayment terms. Advances to a subsidiary are subject to annual interest of 9% on the monthly outstanding balance.

d. Distribution services provided by the Parent Company to URICI for the export of frozen dairy dessert/mellorine whereby URICI pays service fees equivalent to 7% of the total net sales value of goods distributed.

16. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, short-term cash investments, accounts receivable, bank loans, accounts payable and accrued liabilities, and advances to and from related parties. The main purpose of these financial instruments includes raising funds for

the Group's operations and managing identified financial risks. The Group has various other financial assets and financial liabilities such as other current receivables, other current assets and customers' deposits which arise directly from its operations. The main risk arising from the use of financial instruments is credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk
Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top 25% of the industry, and/or those which provide the Group with long-term loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. The Group's gross maximum exposure to credit risk is equal to the carrying amount.

The credit quality of financial assets is managed by the Group using internal credit ratings.

Credit quality of cash in banks, cash equivalents and short-term cash investments are based on the nature of the counterparty and the Group's internal rating system.

Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Group if there are no predetermined defined due dates. All other financial assets that are neither past due or impaired are classified as "Good" accounts.

Liquidity risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary. Working capital requirements, on the other hand, are adequately addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

Foreign exchange risk
The Group's exposure to foreign exchange risk results from the Parent Company's and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2017 and 2016.

There is no other impact on the Group's equity other than those affecting the statement of income.
Equity price risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stock. Management strictly monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of quoted common and golf club shares, which are classified as AFS financial assets.

There is no other impact on the Group's equity other than those affecting the statement of income.

17. Fair Value Measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2017:

			Fair Value Measurement Using		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Property, plant and equipment at appraised value	December 31, 2017	**₱3,117,628**	**₱–**	**₱–**	**₱3,117,628**
Asset for which fair value is disclosed					
Property, plant and equipment at appraised value	December 31, 2016	₱2,479,531	₱–	₱–	₱2,479,531

The Group's parcels of land were stated at their revalued amounts based on an appraisal made by an SEC-accredited independent appraisers dated January 13, 2014. The parcels of land, located in Mandaluyong City and Pasig City, have aggregate fair values of ₱3,117.53 million and ₱2,479.53 million as of December 31, 2017 and 2016, respectively.

Property, plant and equipment at appraised value
The appraised value of the land was determined using the market approach which is a valuation technique that use prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-10% to -20%) and location (-10% to 10%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the accredited independent appraisers would increase (decrease) the fair value of the parcels of land (Level 3 - Significant unobservable inputs).

18. Other Income (Charges)

	For the Period Ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
	(amounts in millions)	
Interest expense	**₱(10)**	₱(7)
Interest income	**16**	12
Other income, net	**38**	7
	₱44	₱12

19. Earnings per Share (EPS)

		For the Period Ended June 30	
		2018 (Unaudited)	2017 (Unaudited)
a.	Net income attributable to equity holders of the Parent Company (Amounts in Millions)	**₱525**	₱508
b.	Common shares outstanding	**3,495,500,066**	3,495,626,266
c.	Weighted average common shares outstanding	**3,498,411,210**	3,496,365,124
d.	Basic earnings per share (a/c)	**₱0.150**	₱0.145
e.	Diluted earnings per share (a/c)	**₱0.150**	₱0.145

RFM CORPORATION AND SUBSIDIARIES
Aging Analysis of Trade Receivables
As of June 30, 2018
(Amounts in Millions)

	Amount	%
Under Three (3) Months	₱1,027	61%
Three (3) Months to One (1) Year	488	29%
Over One (1) Year	168	10%
	₱1,683	**100%**

ANNEX "A"

- **Audited Financial Statements of Interbake Commissary Corporation (ICC) and Independent Auditor's Report for the Years 2015, 2016 and 2017**

Interbake Commissary Corporation
(A Wholly Owned Subsidiary of RFM Corporation)

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report



A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Interbake Commissary Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Interbake Commissary Corporation (a wholly owned subsidiary of RFM Corporation), which comprise the balance sheets as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Interbake Commissary Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 20 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Interbake Commissary Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321614, January 4, 2016, Makati City

April 11, 2016

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

BALANCE SHEETS

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱7,849,856**	₱24,984,280
Receivables (Notes 5 and 15)	**122,404**	77,252,624
Inventories (Note 6)	**20,928,165**	23,763,740
Other current assets (Note 7)	**8,562,383**	14,182,920
Total Current Assets	**37,462,808**	140,183,564
Noncurrent Assets		
Property and equipment (Note 8)	**209,492,299**	250,501,764
Deferred input value-added tax (VAT)	**1,018,200**	2,787,692
Deferred income tax assets - net (Note 16)	**1,461,031**	2,455,719
Other noncurrent assets	**2,603,204**	2,606,381
Total Noncurrent Assets	**214,574,734**	258,351,556
TOTAL ASSETS	**₱252,037,542**	₱398,535,120
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 9 and 15)	**₱62,202,111**	₱33,556,032
Dividends payable (Note 19)	**100,000,000**	100,000,000
Current portion of long-term debt (Note 10)	**–**	78,823,529
Total Current Liabilities	**162,202,111**	212,379,561
Noncurrent Liabilities		
Retirement benefits liability (Note 14)	**2,766,010**	2,457,000
Long-term debt - net of current portion (Note 10)	**–**	95,882,353
Total Noncurrent Liabilities	**2,766,010**	98,339,353
Total Liabilities	**164,968,121**	310,718,914
Equity		
Capital stock - ₱1 par value		
Authorized and issued - 83,500,000 shares	**83,500,000**	83,500,000
Retained earnings (Note 18)	**3,569,421**	4,316,206
Total Equity	**87,069,421**	87,816,206
TOTAL LIABILITIES AND EQUITY	**₱252,037,542**	₱398,535,120

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
REVENUE (Note 15)	**₱163,013,084**	₱188,857,842
COSTS OF SERVICES (Note 11)	**159,078,384**	181,807,852
GROSS PROFIT	**3,934,700**	7,049,990
GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**(1,126,803)**	(997,818)
OTHER INCOME (CHARGES)		
Interest expense (Notes 10)	**(4,238,858)**	(7,139,973)
Reversal of allowance for doubtful accounts (Note 5)	**1,713,405**	2,140,449
Interest income (Note 4)	**94,249**	446,684
Foreign exchange gain	**36,563**	–
INCOME BEFORE INCOME TAX	**413,256**	1,499,332
PROVISION FOR INCOME TAX (Note 16)		
Current	**156,828**	150,887
Deferred	**997,245**	220,185
	1,154,073	371,072
NET INCOME (LOSS)	**(740,817)**	1,128,260
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified to profit or loss in subsequent periods - Re-measurements of retirement benefits, net of deferred income tax effect of ₱2,557 and ₱168,819 in 2015 and 2014, respectively (Note 14)	**(5,968)**	393,909
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱746,785)**	₱1,522,169

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Capital Stock	Retained Earnings (Note 19)	Total
BALANCES AT DECEMBER 31, 2013	**₱83,500,000**	**₱102,794,037**	**₱186,294,037**
Net income for the year	–	1,128,260	1,128,260
Other comprehensive loss - Re-measurements of retirement benefits, net of deferred income tax effect of ₱168,819 (Note 14)	–	393,909	393,909
Total comprehensive income for the year	–	1,522,169	1,522,169
Cash dividends - ₱1.20 per share (Note 19)	–	(100,000,000)	(100,000,000)
BALANCES AT DECEMBER 31, 2014	**83,500,000**	**4,316,206**	**87,816,206**
Net loss for the year	–	(740,817)	(740,817)
Other comprehensive loss - Re-measurements of retirement benefits, net of deferred income tax effect of ₱2,557 (Note 14)	–	(5,968)	(5,968)
Total comprehensive loss for the year	–	(746,785)	(746,785)
BALANCES AT DECEMBER 31, 2015	**₱83,500,000**	**₱3,569,421**	**₱87,069,421**

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱413,256**	₱1,499,332
Adjustments for:		
Depreciation and amortization (Note 8)	**44,312,877**	49,851,950
Interest expense (Note 10)	**4,238,858**	7,139,973
Retirement benefit cost (Note 14)	**300,484**	368,328
Interest income (Note 4)	**(94,249)**	(446,684)
Operating income before working capital changes	**49,171,226**	58,412,899
Decrease (increase) in:		
Receivables	**77,130,220**	103,653,404
Other current assets	**8,723,966**	(13,994,809)
Inventories	**2,835,575**	(10,156,647)
Decrease in accounts payable and accrued liabilities	**(7,505,932)**	(15,042,333)
Cash generated from operations	**130,355,055**	122,872,514
Interest expense paid	**(5,054,080)**	(8,197,814)
Income taxes paid, including creditable withholding taxes	**(3,260,261)**	(7,496,400)
Interest received	**94,249**	446,684
Net cash from operating activities	**122,134,963**	107,624,984
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 8)	**(3,303,412)**	(26,864,021)
Decrease in other noncurrent asset	**1,772,668**	1,766,315
Net cash used in investing activities	**(1,530,744)**	(25,097,706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advances from related parties (Note 15)	**110,042,601**	7,896,524
Payments of long-term debt (Note 10)	**(174,705,882)**	(78,823,529)
Payments of advances from related parties	**(73,075,362)**	(4,784,587)
Cash dividends paid (Note 20)	**–**	(60,000,000)
Net cash used in financing activities	**(137,738,643)**	(135,711,592)
DECREASE IN CASH AND CASH EQUIVALENTS	**(17,134,424)**	(53,184,314)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**24,984,280**	78,168,594
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱7,849,856**	₱24,984,280

See accompanying Notes to Financial Statements.

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Interbake Commissary Corporation (the Company), a wholly owned subsidiary of RFM Corporation (RFM or Parent Company), was incorporated in the Philippines on February 5, 1998. The Company is engaged in the manufacturing and marketing of bread and cake products. It also manufactures branded products like non-pasta products such as flour-based, rice-based and recado mixes under the brand name "White King" for the Parent Company.

In 2013, the Company ceased its bun manufacturing operations and will instead operate as a toll manufacturer for its Parent Company and third parties. In June 2013, the Company and the Parent Company entered into a toll manufacturing agreement whereby the Company undertakes to supply its Parent Company labor, electricity, water, gas and fuel and janitorial and security services in the manufacture of identified products following the procedures in the RFM Technical Manual and to provide a segregated and adequate sanitary storage facilities for the raw materials and finished goods of the Parent Company (see Note 15).

Its registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issue of the Financial Statements

The financial statements were authorized for issue by the Board of Directors (BOD) on April 11, 2016.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2015. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to PFRSs* (2010 to 2012 cycle)
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  - PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

  - PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures - Key Management Personnel*
- *Annual Improvements to PFRSs* (2011 to 2013 cycle)
  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Ventures*
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*
  - PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements unless otherwise indicated. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning January 1, 2016

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
- Amendments to PAS 16 and PAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41 - *Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- *Annual Improvements to PFRSs* (2012-2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue*
  - PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
    the management commentary or risk report).

Effective beginning January 1, 2017

- Amendments to PAS 7, Disclosure Initiative
- Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses

Effective beginning January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version)
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Earlier application of final version of PFRS 9 is permitted. Retrospective application is required, but comparative information is not compulsory.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

Effective beginning January 1, 2019

- PFRS 16, *Leases*
  The new standard introduces major changes in lease accounting. Under PFRS 16, lessees will no longer classify their leases as either operating or financing leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  PFRS 16 will replace PAS 17 and supersede the related interpretations. Earlier application is not permitted until the Financial Standards Reporting Council (FRSC) has adopted the new revenue recognition standard.

  The Company is currently studying the impact of future adoption of PFRS 16.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate*

Issued by the IASB but not yet adopted by the FRSC

- International Financial Reporting Standards (IFRS 15), *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods



beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transactions costs. The Company's financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial assets and financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each balance sheet date.

Financial instruments are classified as a liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2015 and 2014, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.



Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2015 and 2014, the Company's loans and receivables include receivables and deposits.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

As of December 31, 2015 and 2014, the Company's other financial liabilities include accounts payable and accrued expenses, dividends payable and long-term debt.

Impairment of Financial Assets
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired loans and receivables carried at amortized cost are derecognized when they are assessed as uncollectible either as a direct reduction of the carrying amount or through use of an allowance account when impairment has been previously recognized in the said amount.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously

Inventories
Inventories, comprising of spare parts and supplies, are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. NRV is the current replacement cost.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of items of property and equipment consists of its purchase price, including import duties, and any directly attributable costs of bringing the asset to its working conditions and locations for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance costs, are normally recognized to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation commences when the asset is available for its intended use. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the item is derecognized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Number of Years
Machinery and equipment	5 to 15
Building improvements	5 to 15
Office furniture, fixtures and equipment	2 to 5
Transportation equipment	5

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

The estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Where funds are borrowed specifically to finance a project, the amount capitalized represents actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is determined by applying the capitalization rate to the expenditures on the asset. The amount of capitalized borrowing cost, though, cannot exceed the actual borrowing cost incurred during the period.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Property and Equipment

The carrying values of the Company's property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units (CGUs) are written down to their recoverable amounts. The recoverable amount of the assets is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

Previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had there been no impairment loss recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss.

Capital Stock
Capital stock is measured at par value for all shares issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding value-added tax (VAT). The following specific recognition criteria must also be met before revenue is recognized:

Toll processing fees
Toll processing fees are recognized when services are rendered.

Interest income
Interest income is recognized as the interest accrues using the effective interest rate method.

Cost of Services
Cost of services is recognized when services are rendered.

General and Administrative Expenses
General and administrative expenses include costs of administering the business and are expensed as incurred.

Retirement Benefits Costs
The retirement benefits liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. Retirement benefits cost is actuarially determined using the projected unit credit actuarial valuation method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefits costs comprise the following:
(a) Service cost
(b) Net interest on the defined retirement benefits liability
(c) Remeasurements of defined retirement benefits liability

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the retirement benefits liability is the change during the period in the retirement benefits liability that arises from the passage of time which is determined by applying the discount



rate based on high quality corporate bonds to the retirement benefits liability. Net interest on the retirement benefits liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on the defined retirement benefits liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the profit or loss in subsequent periods.

Value-added tax (VAT)
Expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

Income Taxes
Current income tax
Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax that relates to items that are recognized in the OCI shall be recognized in OCI.

Foreign Currency - denominated Transactions and Translations
Transactions denominated in foreign currencies are initially recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the closing functional currency exchange rate at the balance sheet date. Foreign exchange gains or losses arising from foreign currency transactions and balances are recognized in profit or loss.

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a



result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Events after the balance sheet date that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and such estimates will be adjusted accordingly, when the effects become determinable.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Impairment of property and equipment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property and equipment of the Company may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Management assessed that there was no indication of impairment on the Company's property and equipment as of December 31, 2015 and 2014. The carrying values of property and equipment as of December 31, 2015 and 2014 amounted to ₱209,492,299 and ₱250,501,764, respectively (see Note 8).

Recognition of deferred income tax assets

The carrying value of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Total recognized gross deferred income tax assets amounted to ₱1,727,076 and ₱2,745,946 as of December 31, 2015 and 2014, respectively, since management believes that the Company will have sufficient future taxable income to allow the recognition of deferred income tax assets on the deductible temporary differences (see Note 16).

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year follows:

Estimation of allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectibility of its loans and receivables. The Company evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Company uses judgment, based on available facts and circumstances, and based on the factors that affect the collectability of the accounts. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

The carrying value of receivables as of December 31, 2015 and 2014 amounted to ₱122,404 and ₱77,252,624, respectively. Allowance for doubtful accounts amounted to nil and ₱1,713,405 as of December 31, 2015 and 2014, respectively (see Note 5).

Determination of NRV of inventories

The Company's estimates of the NRV of inventories are based on the most reliable evidence, which are available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at net realizable value in each subsequent period.

The carrying values of inventories as of December 31, 2015 and 2014 amounted to ₱20,928,165 and ₱23,763,740, respectively. No allowance for inventory obsolescence was recorded as of December 31, 2015 and 2014 (see Note 6).

Estimation of useful lives of property and equipment

The useful lives of property and equipment are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. Any reduction in the estimated useful lives of property and equipment would increase the Company's recorded operating expenses and decrease noncurrent assets. There is no change in the estimated useful lives of property and equipment.

The carrying value of property and equipment as of December 31, 2015 and 2014 amounted to ₱209,492,299 and ₱250,501,764, respectively (see Note 8).

Estimation of retirement benefits liabilities and costs

The cost of defined benefit retirement plans as well as the present value of the retirement obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Retirement benefits liability as of December 31, 2015 and 2014 amounted to ₱2,766,010 and ₱2,457,000, respectively (see Note 14).



In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates in the country. Further details about the assumptions used are provided in Note 14.

4. Cash and Cash Equivalents

	2015	2014
Cash on hand and in banks	**₱7,849,856**	₱4,761,964
Short-term investments	**–**	20,222,316
	₱7,849,856	₱24,984,280

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱94,249 and ₱446,684 for the years ended December 31, 2015 and 2014, respectively.

5. Receivables

	2015	2014
Trade:		
Third parties	**₱–**	₱1,713,405
Related party (Note 15)	**–**	77,045,782
Others	**122,404**	206,842
	122,404	78,966,029
Less allowance for doubtful accounts	**–**	1,713,405
	₱122,404	₱77,252,624

Trade receivables are due within 15 to 30 days and do not bear interest.

Movement of the allowance for doubtful accounts for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Beginning of year	**₱1,713,405**	₱7,924,456
Reversal	**(1,713,405)**	(2,140,449)
Write-off	**–**	(4,070,602)
End of year	**₱–**	₱1,713,405

6. Inventories

Inventories comprising of spare parts and supplies amounted to ₱20,928,165 and ₱23,763,740 as of December 31, 2015 and 2014, respectively, and are carried at cost.

7. Other Current Assets

	2015	2014
Creditable withholding tax	**₱6,752,476**	₱3,649,042
Deposits	**1,809,907**	10,533,878
	₱8,562,383	₱14,182,920

Deposits include non-refundable cash deposits for utilities.

8. Property and Equipment

As of December 31, 2015:

	Machinery and Equipment	Building Improvements	Office Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Beginning of year	**₱378,785,820**	**₱68,655,723**	**₱4,715,184**	**₱7,105,317**	**₱2,947,591**	**₱22,166,356**	**₱484,375,991**
Additions	**1,480,357**	**381,875**	**305,224**	**–**	**–**	**1,135,956**	**3,303,412**
End of year	**380,266,177**	**69,037,598**	**5,020,408**	**7,105,317**	**2,947,591**	**23,302,312**	**487,679,403**
Accumulated Depreciation and Amortization							
Beginning of year	**199,368,403**	**25,789,738**	**2,929,590**	**4,117,499**	**1,668,997**	**–**	**233,874,227**
Depreciation and amortization (Notes 11)	**35,890,050**	**6,059,108**	**840,700**	**1,268,232**	**254,787**	**–**	**44,312,877**
End of year	**235,258,453**	**31,848,846**	**3,770,290**	**5,385,731**	**1,923,784**	**–**	**278,187,104**
Net Book Values	**₱145,007,724**	**₱37,188,752**	**₱1,250,118**	**₱1,719,586**	**₱1,023,807**	**₱23,302,312**	**₱209,492,299**

As of December 31, 2014:

	Machinery and Equipment	Building Improvements	Office Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Beginning of year	₱358,406,117	₱68,231,616	₱3,791,408	₱7,273,388	₱2,947,591	₱17,286,850	₱457,936,970
Additions	20,379,703	424,107	923,776	256,929	–	4,879,506	26,864,021
Transfer (Note 15)	–	–	–	(425,000)	–	–	(425,000)
End of year	378,785,820	68,655,723	4,715,184	7,105,317	2,947,591	22,166,356	484,375,991
Accumulated Depreciation and Amortization							
Beginning of year	157,873,823	19,804,020	2,200,038	3,080,341	1,382,805	–	184,341,027
Transfer (Note 15)	–	–	–	(318,750)	–	–	(318,750)
Depreciation and amortization (Notes 11)	41,494,580	5,985,718	729,552	1,355,908	286,192	–	49,851,950
End of year	199,368,403	25,789,738	2,929,590	4,117,499	1,668,997	–	233,874,234
Net Book Values	₱179,417,417	₱42,865,985	₱1,785,594	₱2,987,818	₱1,278,594	₱22,166,356	₱250,501,764

As of December 31, 2015 and 2014, the cost of fully depreciated property and equipment that are still used in operations amounted to ₱87,475,124 and ₱40,886,800, respectively.

9. Accounts Payable and Accrued Liabilities

	2015	2014
Trade - third parties	**₱3,317,012**	₱15,766,803
Accrued liabilities:		
Outside services	**7,597,209**	2,686,059
Accrued profit bonus	**2,140,026**	1,915,423

(Forward)

	2015	2014
Accrued interest on loans	**–**	815,222
Others	**4,704,951**	5,185,452
Due to related party (Note 15)	**42,557,331**	5,590,092
VAT payable	**598,745**	903,143
Others	**1,286,837**	693,838
	₱62,202,111	₱33,556,032

Other accrued liabilities include payroll related accruals for salaries and wages, accrued expenses for utilities, contracted services, and other operating expenses. Others include customers' deposits, withholding taxes payables and other nontrade liabilities.

10. Long-term Debt

On March 15, 2011, the Company obtained a ₱150,000,000 unsecured and interest-bearing long-term debt from a local bank payable in seventeen (17) equal quarterly installments of ₱8,823,529 starting March 15, 2012. The interest rate will be based on 3-month PDST-F + 1.75% per annum subject to repricing every quarter. Interest rates for 2015 and 2014 range from 3.99% to 4.29% and 2.69% to 5.08%, respectively. The proceeds of the debt were used to finance the acquisitions of new machinery and equipment, and construction of a warehouse building extension to house the newly acquired assets. The loan agreement provides certain financial ratios that the Company is required to maintain.

On October 19, 2012, the Company obtained another unsecured and interest-bearing long-term debt from the same local bank amounting to ₱185,000,000 payable in seventeen (17) equal quarterly installments of ₱10,882,353 starting October 31, 2013. The interest rate will be based on 3-month PDST-F + 1.75% per annum subject to repricing every quarter. Interest rates for the period October 15 to December 31, 2012 and in 2013 range from 2.69% to 4.51% and 2.69% to 3.68%, respectively. The proceeds of the loan were used to finance acquisitions of machinery and equipment. The loan agreement provides certain financial ratios that the Company is required to maintain.

Starting 2014, the creditor bank permanently waived any event of default arising from noncompliance of required financial ratios given the guarantee of the Parent Company on these loans.

During the third quarter of 2015, the Company prepaid the long-term debt. No interest expense was capitalized in 2015 and 2014.

Interest expense charged to operations for the years ended December 31, 2015 and 2014 amounted to ₱4,238,858 and ₱7,139,973 respectively.

11. Cost of Services

	2015	2014
Depreciation and amortization (Note 8)	**₱44,312,877**	₱49,851,950
Outside services	**41,766,089**	36,550,273
Utilities	**27,628,572**	34,203,326

(Forward)

	2015	2014
Repairs and maintenance	**₱17,417,415**	₱26,676,103
Fuel and oil	**9,066,681**	18,840,647
Personnel costs (Note 13)	**8,078,251**	7,891,418
Taxes, duties and license fees	**4,630,646**	4,418,477
Insurance	**1,202,644**	1,244,041
Rent	**48,543**	527,034
Others	**4,926,666**	1,604,583
	₱159,078,384	₱181,807,852

12. General and Administrative Expenses

	2015	2014
Penalties	**₱919,795**	₱–
Professional fee	**127,982**	250,684
Utilities	**17,417**	215,140
Rent	**17,079**	–
Transportation and travel	**4,974**	5,724
Supplies	**2,467**	321,289
Personnel costs (Note 13)	**1,310**	9,705
Others	**35,779**	195,276
	₱1,126,803	₱997,818

13. Personnel Costs

	2015	2014
Salaries, wages and other benefits	**₱7,471,367**	₱7,274,842
Retirement benefits costs (Note 14)	**300,484**	368,328
Others	**307,710**	257,953
	₱8,079,561	₱7,901,123

Breakdown of personnel costs charged follow:

	2015	2014
Cost of sales and services (Note 11)	**₱8,078,251**	₱7,891,418
General and administrative expenses (Note 12)	**1,310**	9,705
	₱8,079,561	₱7,901,123

14. Retirement Benefits Costs

The Company maintains an unfunded noncontributory defined benefit retirement plan which provides for separation and severance benefits to all eligible employees based on a certain percentage of the employee's final monthly salary at the time of normal retirement. The normal retirement age is 60 years and older, or has served at least five years of continuous service with the Company; or upon reaching the mandatory retirement age of 65 years. Retirement benefits costs are determined in accordance with an actuarial study and are based on the employees' years of service and final covered compensation.

The table below summarizes the components of the retirement benefits costs recognized in profit or loss.

	2015	2014
Current service cost	**₱185,005**	₱238,339
Interest cost	**115,479**	129,989
	₱300,484	₱368,328

Movements in the present value of defined benefit obligation are as follows:

	2015	2014
Beginning of year	**₱2,457,000**	₱2,651,400
Retirement benefits cost	**300,484**	368,328
Remeasurements on:		
Actuarial loss (gain) arising from changes in financial assumptions	**(125,680)**	55,300
Actuarial loss (gain) arising from deviations of experience from assumption	**134,206**	(618,028)
End of year	**₱2,766,010**	₱2,457,000

The principal actuarial assumptions used to determine the retirement benefits costs and liability follow:

	2015	2014
Discount rate	**5.12%**	4.70%
Salary increase	**5.00%**	5.00%

The average duration of the expected benefit payments at the end of the reporting period is 17.15 years.

The defined benefit obligation is subject to several key assumptions. To help illustrate the impact of each key assumption, we provide a sensitivity analysis below which has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase/ (Decrease)	Effect on Defined Benefit Obligation Increase/ (Decrease)
Discount rate	(1.00%)	₱3,080,898
	1.00%	(2,496,982)
Salary increase rate	(1.00%)	(2,483,352)
	1.00%	3,091,714

The maturity analysis of undiscounted expected benefit payments follow:

Plan year	Normal retirement
Less than one year	₱228,022
More than one year to five years	1,049,743
More than five years to 10 years	1,053,305
More than 10 years to 15 years	1,033,219
More than 15 years to 20 years	4,519,415
More than 20 years	4,211,733

15. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The Company's significant transactions with related parties follow:

Nature of Transaction	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balance as of December 31	
		2015	2014	**2015**	2014
Parent Company					
RFM Corporation				Accounts receivable (Note 5)	
Toll processing fees	Non-interest bearing, payable within 30 days; Unsecured and will be settled in cash	**₱163,013,084**	₱188,857,842	**₱–**	₱77,045,782
				Due to related party (Note 15)	
Interest on net payables to Parent Company	- do -	**–**	187,032	**₱–**	₱–
Transfer of vehicle (Note 8)	Non-interest bearing; proceeds to be applied on advances from Parent Company	**–**	106,250	**–**	–
Advances on nontrade transactions	-do-	**110,042,601**	5,590,092	**42,557,331**	5,590,092
				₱42,557,331	₱5,590,092

In June 2013, the Company and the Parent Company entered into a toll processing agreement whereby the Company undertakes to supply its Parent Company labor, electricity, water, gas and fuel and janitorial and security services in the manufacture of products following the procedures in the RFM Technical Manual and to provide a segregated and adequate sanitary storage facilities for the raw materials and finished goods of the Parent Company. The contract is renewable on an annual basis. The contract was renewed to cover the period October 1, 2015 to December 31, 2017.

16. Income Taxes

a. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income before income tax to the provision for income tax at the effective income tax rate follows:

	2015	2014
Provision for income tax computed at the statutory income tax rate	**₱123,977**	₱449,800
Additions to (reductions in) income tax resulting from:		
Interest income already subjected to final tax	**(28,275)**	(134,005)
Nondeductible portion of interest expense	**11,663**	55,277
Nondeductible expenses	**1,046,708**	–
Provision for income tax	**₱1,154,073**	₱371,072

b. The components of the Company's net deferred income tax assets are as follows:

	2015	2014
Deferred income tax assets on:		
Retirement benefits liability	**₱829,803**	₱737,099
NOLCO	**589,558**	1,343,940
Excess MCIT	**307,715**	150,887
Allowance for doubtful accounts	**–**	514,020
	1,727,076	2,745,946
Deferred income tax liabilities on:		
Capitalized interest expense	**266,041**	290,227
	₱1,461,035	₱2,455,719

c. The details of NOLCO and MCIT as of December 31, 2015 follow:

Year Incurred	NOLCO	MCIT	Year Expiring
2014	₱1,965,193	₱150,887	2017
2015	–	156,828	2018
	₱1,965,193	₱307,715	

d. Movement in NOLCO and MCIT follow:

	NOLCO		MCIT	
	2015	2014	**2015**	2014
Beginning	**₱4,479,800**	₱–	**₱150,887**	₱–
Additions	**–**	4,479,800	**156,828**	150,887
Applications	**(2,514,607)**	–	**–**	–
Ending	**₱1,965,193**	₱4,479,800	**₱307,715**	₱150,887

17. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's risk management is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit risk

Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Company deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Company obtains collateral to secure sales of its products to customers.

The following table shows maximum exposure to credit risk for the Company's financial assets as of December 31, 2015 and 2014, without taking account of any collateral and other credit enhancements:

	2015	2014
Cash in banks and cash equivalents	**₱7,824,856**	₱24,959,280
Receivables:		
Trade receivables	**–**	78,759,187
Others	**122,404**	206,842
	₱7,947,260	₱103,925,309

The tables below show the credit quality of the Company's financial assets based on its historical experience with the corresponding parties:

December 31, 2015:

	Neither past due nor impaired		**Past due but**	**Past due and**	
	Excellent	**Good**	**not impaired**	**Impaired**	**Total**
Loans and receivables:					
Cash and cash equivalents	**₱7,849,856**	**₱–**	**₱–**	**₱–**	**₱7,849,856**
Other receivables	**–**	**122,404**	**–**	**–**	**122,404**
	₱7,849,856	**₱122,404**	**₱–**	**₱–**	**₱7,972,260**

December 31, 2014:

	Neither past due nor impaired		Past due but	Past due and	
	Excellent	Good	not impaired	Impaired	Total
Loans and receivables:					
Cash and cash equivalents	₱24,959,280	₱–	₱–	₱–	₱24,959,280
Receivables:					
Trade receivables	–	77,045,782	–	1,713,405	78,759,187
Others	–	206,842	–	–	206,842
	₱24,959,280	₱77,252,624	₱–	₱1,713,405	₱103,925,309

The credit quality of financial assets is managed by the Company using internal credit ratings. Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Company if there are no pre-determined defined due dates. All other assets that are neither past due nor impaired are classified as "Good" accounts.

Liquidity risk
Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments. Management manages liquidity by achieving collection efficiency and obtaining advance payment from Parent Company.

The following tables show the maturity profile of the Company's financial liabilities (undiscounted amounts of principal and related interest) as well as the undiscounted cash flows from financial assets used for liquidity management:

As of December 31, 2015:

	Less than 3 months	3 to 12 months	More than one year	Total
Financial assets:				
Cash on hand	**₱25,000**	**₱–**	**₱–**	**₱25,000**
Cash in banks and cash equivalents	**7,824,856**	**–**	**–**	**7,824,856**
Other receivables	**122,404**	**–**	**–**	**122,404**
	₱7,972,260	**₱–**	**₱–**	**₱7,972,260**
Financial liabilities:				
Trade payables	**₱3,317,012**	**₱–**	**₱–**	**₱3,317,012**
Accrued liabilities	**14,442,186**	**–**	**–**	**14,442,186**
Due to related party	**42,557,331**	**–**	**–**	**42,557,331**
Others*	**1,091,743**	**–**	**–**	**1,091,743**
	₱61,408,272	**₱–**	**₱–**	**₱61,408,272**

**Excludes ₱195,094 government related payable.*

As of December 31, 2014:

	Less than 3 months	3 to 12 months	More than one year	Total
Financial assets:				
Cash on hand	₱25,000	₱–	₱–	₱25,000
Cash in banks and cash equivalents	24,959,280	–	–	24,959,280
Trade receivables	78,759,187	–	–	78,759,187
Other receivables	206,842	–	–	206,842
	₱103,950,309	₱–	₱–	₱103,950,309
Financial liabilities:				
Trade payables	₱15,766,803	₱–	₱–	₱15,766,803
Long-term debt*	184,662,024	–	–	184,662,024
Accrued liabilities	10,601,519	–	–	10,601,519
Due to related party	–	–	–	–
Others**	508,760	–	–	508,760
	₱211,539,106	₱–	₱–	₱211,539,106

**Includes interest expense of ₱9,956,141.*
***Excludes ₱185,078 government related payable.*

Fair Value of Financial Instruments

Cash and cash equivalents, receivables, trade payables, accrued liabilities, due to related parties and other financial liabilities
The carrying values approximate their fair values due to the relatively short-term nature of these financial instruments.

Long-term debt
Long-term debt bears interest at prevailing market interest rate, repriced quarterly, thus, approximates fair value.

18. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern and to ensure that the Company complies with externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2015 and 2014.

The Company considers the following as capital:

	2015	2014
Capital stock	**₱83,500,000**	₱83,500,000
Retained earnings	**3,569,421**	4,316,206
	₱87,069,421	₱87,816,206

19. Retained Earnings

a. On December 1, 2013, the BOD approved the declaration of cash dividends at ₱0.72 per share or a total of ₱60,000,000 to its stockholder as of December 15, 2013. The dividends where paid on April 22, 2014.

b. On December 5, 2014, the BOD approved the declaration of cash dividends at ₱1.20 per share or a total of ₱100,000,000 to its stockholder as of December 15, 2014.

c. The accumulated re-measurement gains on retirement benefits included in the "Retained earnings" account amounted to ₱713,803 and ₱313,926 as of December 31, 2015 and 2014, respectively.

20. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company reported and/or paid the following applicable types of taxes in 2015:

Output VAT
The Company's revenues and its corresponding output VAT declared in the Company's VAT returns as of December 31, 2015 amounted to ₱163,013,084 and ₱19,561,570.

Input VAT
Details of the Company's input VAT account as of December 31, 2015 follows:

	Input VAT	Deferred Input VAT	Total
Balance at January 1	₱–	₱2,787,692	₱2,787,692
Current year purchases of:			
Goods other than capital goods	2,612,004	–	2,612,004
Services	7,560,903	–	7,560,903
Amortization of deferred input VAT	1,769,492	(1,769,492)	–
Total	11,942,399	1,018,200	12,960,599
Less input VAT claimed as deduction against output VAT	11,942,399	–	11,942,399
Balance at December 31	₱–	₱1,018,200	₱1,018,200

VAT cash payments made in 2015 amounted to ₱7,619,171.

Information on the Company's Importations

The Company's total landed cost of importations and custom duties paid for the year ended December 31, 2015 amounted to nil.

Other Taxes, Duties and License Fees

Other taxes, duties and license fees presented in 2015 profit or loss are:

Real property taxes	₱2,563,442
Business Tax	1,508,340
Documentary Stamp Tax	550,213
Other taxes	8,651
	₱4,630,646

Withholding Taxes

Details of the Company's withholding taxes paid or accrued in 2015 follows:

Expanded withholding taxes	₱1,725,511
Withholding taxes on compensation and benefit	576,039
	₱2,301,550

\

Interbake Commissary Corporation
(A Wholly Owned Subsidiary of RFM Corporation)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Interbake Commissary Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Interbake Commissary Cosporation (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the company's financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the company's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Interbake Commissary Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908673, January 3, 2017, Makati City

April 4, 2017

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current assets		
Cash on hand and in banks (Note 4)	**₱1,846,372**	₱7,849,856
Receivables (Note 5)	**78,278**	122,404
Inventories (Note 6)	**15,711,825**	20,928,165
Other current assets (Note 7)	**9,549,000**	8,562,383
Total Current Assets	**27,185,475**	37,462,808
Noncurrent assets		
Property and equipment, net (Note 8)	**148,014,407**	209,492,299
Deferred input value-added tax (VAT)	**–**	1,018,200
Deferred tax asset - net (Note 15)	**696,253**	1,461,034
Other noncurrent assets	**2,603,201**	2,603,201
Total Noncurrent Assets	**151,313,861**	214,574,734
TOTAL ASSETS	**₱178,499,336**	₱252,037,542
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	**₱46,334,328**	₱62,202,111
Dividends payable	**38,000,000**	100,000,000
Total Current Liabilities	**84,334,328**	162,202,111
Noncurrent Liability		
Retirement benefits (Note 13)	**3,127,030**	2,766,010
Total Liabilities	**87,461,358**	164,968,121
Equity		
Capital Stock - P1 par value		
Authorized and issued - 83,500,000 shares (Note 17)	**83,500,000**	83,500,000
Retained earnings	**7,537,978**	3,569,421
Total Equity	**91,037,978**	87,069,421
TOTAL LIABILITIES AND EQUITY	**₱178,499,336**	₱252,037,542

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUE (Note 14)	**₱140,934,702**	₱163,013,084
COST OF SERVICES (Note 10)	**(131,235,651)**	(159,078,384)
GROSS PROFIT	**9,699,051**	3,934,700
GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	**(3,981,500)**	(1,126,803)
OTHER INCOME (CHARGES)		
Interest income (Note 4)	**3,684**	94,249
Foreign exchange gain	**2,812**	36,563
Interest expense	**–**	(4,238,858)
Reversal of allowance for doubtful accounts (Note 5)	**–**	1,713,405
INCOME BEFORE INCOME TAX	**5,724,047**	413,256
PROVISION FOR INCOME TAX (Note 15)		
Current	**934,452**	156,828
Deferred	**781,657**	997,245
	1,716,109	1,154,073
NET INCOME (LOSS)	**4,007,938**	(740,817)
OTHER COMPREHENSIVE LOSS		
Items that will not be reclassified to profit or loss in subsequent periods - Remeasurements of retirement benefits, net of deferred income tax effect of ₱16,878 and ₱2,558 in 2016 and 2015, respectively (Note 13)	**(39,381)**	(5,968)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱3,968,557**	(₱746,785)

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock	Retained Earnings	Total
BALANCES AT DECEMBER 31, 2014	**₱83,500,000**	**₱4,316,206**	**₱87,816,206**
Net loss for the year	–	(740,817)	(740,817)
Other comprehensive loss			
Re-measurements of retirement benefits, net of deferred income tax effect of ₱2,558 (Note 13)	–	(5,968)	(5,968)
Total comprehensive loss for the year	–	(746,785)	(746,785)
BALANCES AT DECEMBER 31, 2015	**83,500,000**	**3,569,421**	**87,069,421**
Net income for the year	–	4,007,938	4,007,938
Other comprehensive loss			
Re-measurements of retirement benefits, net of deferred income tax effect of ₱16,878 (Note 13)	–	(39,381)	(39,381)
Total comprehensive income for the year	**–**	**3,968,557**	**3,968,557**
BALANCES AT DECEMBER 31, 2016	**₱83,500,000**	**₱7,537,978**	**₱91,037,978**

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	**₱5,724,047**	₱413,256
Adjustments for:		
Depreciation and amortization (Note 8)	**36,008,124**	44,312,877
Retirement benefit cost (Notes 12 and 13)	**304,761**	300,484
Interest income (Note 4)	**(3,684)**	(94,249)
Interest expense	**–**	4,238,858
Operating income before working capital changes	**42,033,248**	49,171,226
Decrease (increase) in:		
Receivables	**44,126**	77,130,220
Inventories	**5,216,340**	2,835,575
Other current assets	**31,583**	8,723,966
Increase (decrease) in accounts payable and accrued liabilities	**29,331,817**	(7,505,932)
Cash generated (used in) from operations	**76,657,114**	130,355,055
Income taxes paid, including creditable withholding taxes	**(934,452)**	(3,260,261)
Interest expense paid	**–**	(5,054,080)
Interest received	**3,684**	94,249
Net cash provided by (used in) operating activities	**75,726,346**	122,134,963
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in noncurrent assets	**–**	1,772,668
Acquisitions of property and equipment (Note 8)	**–**	(3,303,412)
Net cash provided by (used in) investing activities	**–**	(1,530,744)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advances from related parties	**92,230,405**	110,042,601
Cash dividends paid	**(62,000,000)**	(73,075,362)
Payments of advances from related parties	**(111,960,235)**	(174,705,882)
Net cash provided by (used in) financing activities	**(81,729,830)**	(137,738,643)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(6,003,484)**	(17,134,424)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**7,849,856**	24,984,280
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,846,372**	₱7,849,856

See accompanying Notes to Financial Statements.

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Interbake Commissary Corporation (the Company), a wholly owned subsidiary of RFM Corporation (RFM or Parent Company), was incorporated in the Philippines on February 5, 1998. The Company is engaged in toll manufacturing for its Parent Company and third parties.

Its registered office address is RFM Corporate Centre, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issue of the Financial Statements

The financial statements were authorized for issue by the Board of Directors (BOD) on April 4, 2017.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statement of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statement of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Exemption from adoption of PFRS for Small and Medium-sized entities (SMEs)

The Company meets the definition of an SME under the criteria set out by the Philippine SEC when the Philippine SEC adopted PFRS for Small and Medium-sized Entities (PFRS for SMEs) as part of its rules and regulations. However, as a subsidiary of an entity reporting under full PFRSs, the Company availed of the exemption provided by the Philippine SEC from the mandatory adoption of PFRS for SMEs and prepared its financial statements in compliance with full PFRSs.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statement. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is currently studying the impact of future adoption of PFRS 15.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative

information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statement, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transactions costs. The Company's financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM)

investments and available-for-sale (AFS) investments. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial assets and financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as a liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2016 and 2015, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2016 and 2015, the Company's loans and receivables include receivables and deposits.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

As of December 31, 2016 and 2015, the Company's other financial liabilities include accounts payable and accrued expenses, dividends payable and long-term debt.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's



original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired loans and receivables carried at amortized cost are derecognized when they are assessed as uncollectible either as a direct reduction of the carrying amount or through use of an allowance account when impairment has been previously recognized in the said amount.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the company's statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of



business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statement on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Inventories
Inventories, comprising of spare parts and supplies, are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. NRV is the current replacement cost.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of items of property and equipment consists of its purchase price, including import duties, and any directly attributable costs of bringing the asset to its working conditions and locations for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance costs, are normally recognized to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation commences when the asset is available for its intended use. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the item is derecognized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Number of Years
Machinery and equipment	5 to 15
Building improvements	5 to 15
Office furniture, fixtures and equipment	2 to 5
Transportation equipment	5

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

The estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Where funds are borrowed specifically to finance a project, the amount capitalized represents actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is determined by applying the capitalization rate to the expenditures on the asset. The amount of capitalized borrowing cost, though, cannot exceed the actual borrowing cost incurred during the period.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Property and Equipment
The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication

exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of the asset is the greater of net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

Capital Stock
Capital stock is measured at par value for all shares issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

Dividends Distribution
Dividends distribution are recognized as a liability and deducted from equity when approved by the respective shareholders of the Company. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend distributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding value-added tax (VAT). The following specific recognition criteria must also be met before revenue is recognized:

Toll processing fees
Toll processing fees are recognized when services are rendered.

Interest income
Interest income is recognized as the interest accrues using the effective interest rate method.

Cost of Services
Cost of services is recognized when services are rendered.

General and Administrative Expenses
General and administrative expenses include costs of administering the business and are expensed as incurred.

Retirement Benefits Costs
The retirement benefits liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. Retirement benefits cost is actuarially determined using the projected unit credit actuarial valuation method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefits costs comprise the following:
(a) Service cost
(b) Net interest on the defined retirement benefits liability
(c) Remeasurements of defined retirement benefits liability

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the retirement benefits liability is the change during the period in the retirement benefits liability that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the retirement benefits liability. Net interest on the retirement benefits liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on the defined retirement benefits liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the profit or loss in subsequent periods.

Value-added tax (VAT)
Expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

Income Taxes
Current income tax
Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred income tax
Deferred income tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT) to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of tax credits from unused NOLCO and excess of unused MCIT can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax item recognized outside the statements of comprehensive income is recognized in correlation to the underlying transaction either in statements of other comprehensive income or directly in equity.

Foreign Currency - denominated Transactions and Translations

Transactions denominated in foreign currencies are initially recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the closing functional currency exchange rate at the reporting date. Foreign exchange gains or losses arising from foreign currency transactions and balances are recognized in profit or loss.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statement. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statement but disclosed in the notes to financial statement when an inflow of economic benefits is probable.

Events After the Reporting Date

Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statement. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and such estimates will be adjusted accordingly, when the effects become determinable.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Impairment of property and equipment
Internal and external sources of information are reviewed at each reporting date to identify indications that the property and equipment of the Company may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Management assessed that there was no indication of impairment on the Company's property and equipment as of December 31, 2016 and 2015. The carrying values of property and equipment as of December 31, 2016 and 2015 amounted to ₱148,014,407 and ₱209,492,299, respectively (see Note 8).

Recognition of deferred income tax assets
The carrying value of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Total recognized gross deferred income tax assets amounted to ₱938,109 and ₱1,727,076 as of December 31, 2016 and 2015, respectively, since management believes that the Company will have sufficient future taxable income to allow the recognition of deferred income tax assets on the deductible temporary differences (see Note 15).

Accounting Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year follows:

Estimation of retirement benefits liabilities and costs
The cost of defined benefit retirement plans as well as the present value of the retirement obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement benefits liability as of December 31, 2016 and 2015 amounted to ₱3,127,030 and ₱2,766,010, respectively (see Note 13).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates in the country. Further details about the assumptions used are provided in Note 13.

4. Cash on Hand and in Banks

	2016	2015
Cash on hand	**₱5,000**	₱25,000
Cash in banks	**1,841,372**	7,824,856
	₱1,846,372	₱7,849,856

Interest income earned from cash in banks amounted to ₱3,684 and ₱94,249, for the years ended December 31, 2016 and 2015, respectively.

5. Receivables

The Company's receivables amounted to ₱78,278 and ₱122,404 as of December 31, 2016 and 2015, respectively. This pertains to the Company's receivable from officers and employees and claims against SSS. In 2015, allowance for doubtful accounts amounting to ₱1,713,405 was reversed.

6. Inventories

Inventories comprising of spare parts and supplies amounted to ₱15,711,825 and ₱20,928,165 as of December 31, 2016 and 2015, respectively and are carried at cost.

7. Other Current Assets

	2016	2015
Creditable withholding tax	**₱8,914,966**	₱6,752,476
Deposits	**634,034**	1,809,907
	₱9,549,000	₱8,562,383

Deposits include non-refundable cash deposits for utilities.

8. Property and Equipment

As of December 31, 2016:

	Machinery and Equipment	**Building Improvements**	**Office Furniture, Fixture and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Cost							
Beginning of year	**₱380,266,177**	**₱69,037,598**	**₱5,020,408**	**₱7,105,317**	**₱2,947,591**	**₱23,302,312**	**₱487,679,403**
Transfer (Note 14)	**(1,480,357)**	**(381,875)**	**(305,224)**	**–**	**–**	**(23,302,312)**	**(25,469,768)**
End of year	**378,785,820**	**68,655,723**	**4,715,184**	**7,105,317**	**2,947,591**	**–**	**462,209,635**
Accumulated Depreciation							
Beginning of year	**235,258,453**	**31,848,846**	**3,770,290**	**5,385,731**	**1,923,784**	**–**	**278,187,104**
Depreciation (Notes 10)	**28,978,115**	**5,296,304**	**387,755**	**1,125,494**	**220,456**	**–**	**36,008,124**
End of year	**264,236,568**	**37,145,150**	**4,158,045**	**6,511,225**	**2,144,240**	**–**	**314,195,228**
Net Book Values	**₱114,549,252**	**₱31,510,573**	**₱557,139**	**₱594,092**	**₱803,351**	**₱–**	**₱148,014,407**

As of December 31, 2015:

	Machinery and Equipment	Building Improvements	Office Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Beginning of year	₱378,785,820	₱68,655,723	₱4,715,184	₱7,105,317	₱2,947,591	₱22,166,356	₱484,375,991
Additions	1,480,357	381,875	305,224	–	–	1,135,956	3,303,412
End of year	380,266,177	69,037,598	5,020,408	7,105,317	2,947,591	23,302,312	487,679,403
Accumulated Depreciation							
Beginning of year	199,368,403	25,789,738	2,929,590	4,117,499	1,668,997	–	233,874,227
Depreciation (Notes 10)	35,890,050	6,059,108	840,700	1,268,232	254,787	–	44,312,877
End of year	235,258,453	31,848,846	3,770,290	5,385,731	1,923,784	–	278,187,104
Net Book Values	₱145,007,724	₱37,188,752	₱1,250,118	₱1,719,586	₱1,023,807	₱23,302,312	₱209,492,299

9. Accounts Payable and Liabilities

	2016	2015
Trade - third parties	**₱7,630,990**	₱3,317,012
Accrued liabilities:		
Outside services	**6,569,915**	7,597,209
Profit bonus	**2,467,579**	2,140,026
Others	**4,790,534**	4,704,951
VAT payable	**294,189**	598,745
Due to related party (Note 14)	**22,827,501**	42,557,331
Others	**1,753,620**	1,286,837
	₱46,334,328	₱62,202,111

Other accrued liabilities include payroll related accruals for salaries and wages, accrued expenses for utilities, contracted services, and other operating expenses. Others include customers' deposits, withholding taxes payables and other nontrade liabilities.

10. Cost of Sales and Services

	2016	2015
Outside services	**₱49,976,696**	₱41,766,089
Depreciation (Note 8)	**36,008,124**	44,312,877
Utilities	**27,739,463**	27,628,572
Personnel costs (Note 12)	**8,400,690**	8,078,251
Repairs and maintenance	**6,729,157**	17,417,415
Insurance	**1,076,368**	1,202,644
Fuel and oil	**187,422**	9,066,681
Rent	**279,028**	48,543
Taxes, duties and license fees	**–**	4,630,646
Others	**838,703**	4,926,666
	₱131,235,651	₱159,078,384

11. General and Administrative Expenses

	2016	2015
Taxes, duties and license fees	**₱3,817,053**	₱–
Transportation and travel	**105,190**	4,974
Personnel costs (Note 12)	**6,717**	1,310
Rent	**6,139**	17,079
Penalties	**–**	919,795
Professional fee	**–**	127,982
Utilities	**–**	17,417
Supplies	**–**	2,467
Others	**46,401**	35,779
	₱3,981,500	₱1,126,803

12. **Personnel Costs**

	2016	2015
Salaries, wages and other benefits	**₱7,352,165**	₱7,471,367
Retirement benefits costs (Note 13)	**304,761**	300,484
Others	**750,481**	307,710
	₱8,407,407	₱8,079,561

Breakdown of personnel costs charged as follow:

	2016	2015
Cost of sales and services (Note 10)	**₱8,400,690**	₱8,078,251
General and administrative expenses (Note 11)	**6,717**	1,310
	₱8,407,407	₱8,079,561

13. **Retirement Benefits Costs**

The Company maintains an unfunded noncontributory defined benefit retirement plan which provides for separation and severance benefits to all eligible employees based on a certain percentage of the employee's final monthly salary at the time of normal retirement. The normal retirement age is 60 years and older, or has served at least five years of continuous service with the Company; or upon reaching the mandatory retirement age of 65 years. Retirement benefits costs are determined in accordance with an actuarial study and based on the employee's years of service and final covered compensation.

The table below summarizes the components of the retirement benefits costs recognized in profit or loss.

	2016	2015
Current service cost	**₱168,979**	₱185,005
Interest cost	**135,782**	115,479
	₱304,761	₱300,484

Movement in the present value of defined benefit obligation are as follows:

	2016	2015
Beginning of the year	**₱2,766,010**	₱2,457,000
Current service cost	**168,979**	185,005
Interest cost	**135,782**	115,479
Remeasurements on:		
Actuarial gain arising from deviations of experience from assumption	**110,458**	230,433
Actual loss arising from changes in financial assumptions	**(54,199)**	(125,680)
Actual loss arising from changes in demographic assumptions	**–**	(96,227)
End of year	**₱3,127,030**	₱2,766,010

Changes in net pension obligation:

	2016	2015
January 1	**₱2,766,010**	₱2,457,000
Pension benefits cost	**304,761**	300,484
Re-measurement loss	**56,259**	8,526
December 31	**₱3,127,030**	₱2,766,010

The principal actuarial assumptions used to determine the retirement benefits costs and liability follow:

	2016	2015
Discount rate	**5.3%**	5.12%
Salary increase	**5%**	5.00%

The latest actuarial valuation of the plan is as of December 31, 2016. The discount rates in 2016 and 2015 were based on PDEX PDST-R2 using the tenor of 25 years.

The discount rate and salary increase rate were identified as significant actuarial assumptions. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on defined benefit obligation as of December 31, 2016, assuming all other assumptions were held constant.

	Increase/ (Decrease)	Effect on Defined Benefit Obligation
Discount rate	(1.00%)	(₱269,901)
	1.00%	314,022
Salary increase	(1.00%)	(327,108)
	1.00%	285,573

The maturity analysis of undiscounted expected benefit payments follow:

Plan year	Normal retirement
Less than one year	₱608,537
More than one year to five years	681,915
More than five years to 10 years	1,428,858
More than 10 years to 15 years	697,919
More than 15 years to 20 years	6,418,242
More than 20 years	2,803,692

14. **Related Party Transactions**

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating transactions. Such relationships also exists between and/or among entities which are under common control with the reporting entity and its key management personnel, directions or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The Company's significant transactions with related parties follow:

Nature of Transaction	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balance as of December 31		Statement of Financial Position Account
		2016	2015	**2016**	2015	
Parent Company						
RFM Corporation						
Toll processing fees	Non-interest bearing, payable within 30; Unsecured and will be settled in cash	**₱140,854,344**	₱163,013,084	**₱–**	₱–	Accounts receivable (Note 5)
Transfers of Property, Plant and Equipment (Note 8)	-do-	**25,469,768**	–	–	–	-do-
Others	-do-	**80,358**	–	–	–	-do-
Advances on nontrade transactions	Noninterest-bearing; proceeds to be applied on advances from Parent Company	**₱92,230,405**	₱110,042,061	**₱22,827,501**	₱42,557,331	Due to related party (Note 9)
				₱22,827,501	₱42,557,331	

In June 2013, the Company and the Parent Company entered into a toll processing agreement whereby the Company undertakes to supply its Parent Company labor, electricity, water, gas and fuel and janitorial and security services in the manufacture of products following the procedures in RFM Technical Manual and to provide a segregated and adequate sanitary storage facilities for the raw materials and finished goods of the Parent Company. The contract is renewable on an annual basis. The contract was renewed to cover the period October 1, 2015 to December 31, 2017.

15. **Income Taxes**

a. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income tax to the provision for income tax at the effective income tax rate follows:

	2016	2015
Provision for income tax computed at the statutory income tax rate	**₱1,717,214**	₱123,977
Additions to (reductions in) income tax resulting from:		
Interest income already subjected to final tax	**(1,105)**	(28,275)
Nondeductible expenses	**–**	1,046,708
Nondeductible portion of interest expense	**–**	11,663
Provision for income tax	**₱1,716,109**	₱1,154,073

b. The components of the Company's net deferred income tax assets are as follows:

	2016	2015
Deferred income tax assets on:		
Retirement benefits liability	**₱938,109**	₱829,803
NOLCO	**–**	589,558
Excess MCIT	**–**	307,715
	938,109	1,727,076
Deferred income tax liabilities on:		
Capitalized interest expense	**241,856**	266,042
	₱696,253	₱1,461,034

c. Movement in NOLCO and MCIT follow:

	NOLCO		MCIT	
Year Incurred	**2016**	2015	**2016**	2015
Beginning	**₱1,965,193**	₱4,479,800	**₱307,715**	₱150,887
Additions	**–**	–	**–**	156,828
Applications	**(1,965,193)**	(2,514,607)	**(307,715)**	–
Ending	**₱–**	₱1,965,193	**₱–**	₱307,715

16. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's risk management is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit risk

Credit risks arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Company deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Company obtains collateral to secure sales of its products to customers.

The following table shows maximum exposure to credit for the Company's financial assets as of December 31, 2016 and 2015, without taking account of any collateral and other credit enhancements:

	2016	2015
Cash in banks (Note 4)	**₱1,841,372**	₱7,824,856
Receivables: (Note 5)	**78,278**	122,404
	₱1,919,650	₱7,947,260

The tables below show the credit quality of the Company's financial assets based on its historical experience with the corresponding parties:

December 31, 2016:

	Neither past due nor impaired		**Past due but not impaired**	**Past due and Impaired**	**Total**
	Excellent	**Good**			
Loans and receivables:					
Cash in banks	**₱1,841,372**	**₱–**	**₱–**	**₱–**	**₱1,841,372**
Receivables	**78,278**	**–**	**–**	**–**	**78,278**
	₱1,919,650	**₱–**	**₱–**	**₱–**	**₱1,919,650**

December 31, 2015:

	Neither past due nor impaired		Past due but not impaired	Past due and Impaired	Total
	Excellent	Good			
Loans and receivables:					
Cash in banks	₱7,824,856	₱–	₱–	₱–	₱7,824,856
Receivables:	–	122,404	–	–	122,404
	₱7,824,856	₱122,404	₱–	₱–	₱7,947,260

The credit quality of financial assets is managed by the Company using internal credit ratings. Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before due dates, or upon call by the Company if there are no pre-determined defined due dates. All other assets that are neither past due nor impaired are classified as "Good" accounts.

Liquidity risk
Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments. Management manages liquidity by achieving collection efficiency and obtaining advance payment from Parent Company.

The following tables show the maturity profile of the Company's financial liabilities (undiscounted amounts of principal and related interest) as well as the undiscounted cash flows from financial assets used for liquidity management:

As of December 31, 2016:

	Less than 3 months	**3 to 12 months**	**More than one year**	**Total**
Financial liabilities:				
Trade payables	**₱7,630,990**	**₱–**	**₱–**	**₱7,630,990**
Accrued liabilities	**13,828,028**	**–**	**–**	**13,828,028**
Due to related parties	**22,827,501**	**–**	**–**	**22,827,501**
Others**	**1,493,284**	**–**	**–**	**1,493,284**
	₱45,779,803	**₱–**	**₱–**	**₱45,779,803**

**Excludes P554,525 government-related payable.*

As of December 31, 2015:

	Less than 3 months	3 to 12 months	More than one year	Total
Financial liabilities:				
Trade payables	₱3,317,012	₱–	₱–	₱3,317,012
Accrued liabilities	14,442,186	–	–	14,442,186
Due to related parties	42,557,331	–	–	42,557,331
Others**	1,091,743	–	–	1,091,743
	₱61,408,272	₱–	₱–	₱61,408,272

***Excludes P793,839 government-related payable.*

Fair Value of Financial Instruments

Cash on hand and in banks, receivables, trade payables, accrued liabilities, due to related parties and other financial liabilities.

The carrying value approximate their fair values due to the relatively short-term nature of these financial instruments.

17. Capital Management

The Company maintains a capital base to cover risk inherent to the business. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern and to ensure that the Company complies with externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies and processes during years ended December 31, 2016 and 2015.

The Company considers the following as capital:

	2016	2015
Capital stock	**₱83,500,000**	₱83,500,000
Retained earnings	**7,537,978**	3,569,421
	₱91,037,978	₱87,069,421

18. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company reported and/or paid the following applicable types of taxes for 2016:

Output VAT

The Company's revenues and its corresponding output VAT declared in the Company's VAT returns as of December 31, 2016 amounted to ₱167,054,227 and ₱20,046,507.

Input VAT
Details of the Company's input VAT account as of December 31, 2016 follows:

	Input VAT	Deferred Input VAT	Total
Balance at January 1	₱–	₱1,018,200	₱1,018,200
Current year purchases of:			
Goods other than capital goods	153,274	–	153,274
Importation of goods other than capital goods	–	–	–
Services	9,036,659	–	9,036,659
Amortization of deferred input VAT	1,018,200	(1,018,200)	–
Total	10,208,133	–	10,208,133
Less input VAT claimed as deduction against output VAT	(10,208,133)	–	(10,208,133)
Balance at December 31	₱–	₱–	₱–

VAT cash payments made in 2016 amounted to P9,838,374.

Other Taxes, Duties and License Fees
Other taxes, duties and license fees presented in 2016 profit or loss re included in:

General and administrative expenses:	
Real property taxes	₱2,563,442
Business taxes	1,197,923
Other taxes	55,688
	₱3,817,053

Withholding Taxes
Details of the Company's withholding taxes paid or accrued in 2016 follows:

Expanded withholding taxes	₱1,634,265
Withholding taxes on compensation and benefits	714,130
	₱2,348,395

Interbake Commissary Corporation
(A Wholly Owned Subsidiary of RFM Corporation)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Interbake Commissary Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Interbake Commissary Cosporation (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the company's financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

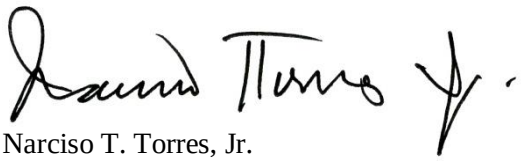
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the company's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Interbake Commissary Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 4, 2018 valid until February 13, 2021
PTR No. 6621336, January 9, 2018, Makati City

April 3, 2018

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current assets		
Cash on hand and in banks (Note 4)	**₱3,090,296**	₱1,846,372
Receivables (Note 5)	**100,244**	78,278
Inventories (Note 6)	**10,412,430**	15,711,825
Other current assets (Note 7)	**11,513,846**	9,549,000
Total Current Assets	**25,116,816**	27,185,475
Noncurrent assets		
Property and equipment (Note 8)	**116,463,783**	148,014,407
Deferred tax asset - net (Note 15)	**833,247**	696,253
Other noncurrent assets	**2,603,201**	2,603,201
Total Noncurrent Assets	**119,900,231**	151,313,861
	₱145,017,047	₱178,499,336
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	**₱50,839,155**	₱46,334,328
Dividends payable	**–**	38,000,000
Total Current Liabilities	**50,839,155**	84,334,328
Noncurrent Liability		
Retirement benefits (Note 13)	**3,503,059**	3,127,030
Total Liabilities	**54,342,214**	87,461,358
Equity		
Capital Stock - ₱1 par value		
Authorized, issued and outstanding - 83,500,000 shares (Note 17)	**83,500,000**	83,500,000
Retained earnings	**7,174,833**	7,537,978
Total Equity	**90,674,833**	91,037,978
	₱145,017,047	₱178,499,336

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUE (Note 14)	**₱136,899,980**	₱140,934,702
COST OF SERVICES (Note 10)	**(129,962,000)**	(131,235,651)
GROSS PROFIT	**6,937,980**	9,699,051
GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	**(5,666,925)**	(3,981,500)
OTHER INCOME (CHARGES)		
Gain on fixed assets disposal	**150,000**	–
Interest income (Note 4)	**2,920**	3,684
Interest expense (Note 15)	**(1,150,960)**	–
Foreign exchange gain	**–**	2,812
INCOME BEFORE INCOME TAX	**273,015**	5,724,047
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 15)		
Current	**773,154**	934,452
Deferred	**(136,994)**	781,657
	636,160	1,716,109
NET INCOME (LOSS)	**(363,145)**	4,007,938
OTHER COMPREHENSIVE LOSS		
Items that will not be reclassified to profit or loss in subsequent periods - Remeasurements of retirement benefits, net of deferred income tax effect of ₱16,878 in 2016 (Note 13)	**–**	(39,381)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱363,145)**	₱3,968,557

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock	Retained Earnings	Total
BALANCES AT DECEMBER 31, 2015	**₱83,500,000**	**₱3,569,421**	**₱87,069,421**
Net income for the year	–	4,007,938	4,007,938
Other comprehensive loss - net	–	(39,381)	(39,381)
Total comprehensive income for the year	–	3,968,557	3,968,557
BALANCES AT DECEMBER 31, 2016	**83,500,000**	**7,537,978**	**91,037,978**
Total comprehensive loss for the year	–	(363,145)	(363,145)
BALANCES AT DECEMBER 31, 2017	**₱83,500,000**	**₱7,174,833**	**₱90,674,833**

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱273,015**	₱5,724,047
Adjustments for:		
Depreciation (Note 8)	**31,550,624**	36,008,124
Interest expense (Note 15)	**1,150,960**	–
Retirement benefit cost (Notes 12 and 13)	**376,029**	304,761
Interest income (Note 4)	**(2,920)**	(3,684)
Operating income before working capital changes	**33,347,708**	42,033,248
Decrease (increase) in:		
Receivables	**(21,966)**	44,126
Inventories	**5,299,395**	5,216,340
Other current assets	**(1,964,846)**	31,583
Increase in accounts payable and accrued liabilities	**4,504,827**	29,331,817
Net cash generated from operations	**41,165,118**	76,657,114
Income taxes paid inclusive of creditable withholding taxes	**(773,154)**	(934,452)
Interest expense paid (Note 15)	**(1,150,960)**	–
Interest received	**2,920**	3,684
Net cash provided by operating activities	**39,243,924**	75,726,346
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	**(38,000,000)**	(62,000,000)
Proceeds from advances from related parties	**–**	92,230,405
Payments of advances from related parties	**–**	(111,960,235)
Net cash used in financing activities	**(38,000,000)**	(81,729,830)
NET INCREASE (DECREASE) IN CASH	**1,243,924**	(6,003,484)
CASH AT BEGINNING OF YEAR	**1,846,372**	7,849,856
CASH AT END OF YEAR (Note 4)	**₱3,090,296**	₱1,846,372

See accompanying Notes to Financial Statements.

INTERBAKE COMMISSARY CORPORATION
(A Wholly Owned Subsidiary of RFM Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Interbake Commissary Corporation (the Company), a wholly owned subsidiary of RFM Corporation (RFM or Parent Company), was incorporated in the Philippines on February 5, 1998. The Company is engaged in toll manufacturing for its Parent Company and third parties.

Its registered office address is RFM Corporate Centre, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issuance of the Financial Statements

The financial statements were authorized for issuance by the Board of Directors (BOD) on April 3, 2018.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statement of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱ or Peso), which is the Company's presentation and functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statement of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Exemption from adoption of PFRS for Small and Medium-sized entities (SMEs)

The Company meets the definition of an SME under the criteria set out by the Philippine Securities and Exchange Commission (SEC) when the Philippine SEC adopted PFRS for Small and Medium-sized Entities (PFRS for SMEs) as part of its rules and regulations. However, as a subsidiary of an entity reporting under full PFRSs, the Company availed of the exemption provided by the Philippine SEC from the mandatory adoption of PFRS for SMEs and prepared its financial statements in compliance with full PFRSs.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Unless otherwise indicated, adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, *Financial Instruments*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is currently studying the impact of future adoption of PFRS 15.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Company presents assets and liabilities in statement of financial position based on current or noncurrent classification.



An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets including deferred taxes are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities including deferred taxes as noncurrent.

Cash

Cash represents cash on hand and in banks. Cash in banks earn annual interest at their respective deposit rates.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statement on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transactions costs. The Company's financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial assets and financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as a liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2017 and 2016, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and

losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2017 and 2016, the Company's loans and receivables include due from officers and employees and other receivables.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

As of December 31, 2017 and 2016, the Company's other financial liabilities include accounts payable and accrued expenses and dividends payable.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired loans and receivables carried at amortized cost are derecognized when they are assessed as uncollectible either as a direct reduction of the carrying amount or through use of an allowance account when impairment has been previously recognized in the said amount.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the Company's rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Inventories
Inventories comprised of spare parts and supplies which are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. NRV is the current replacement cost.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of items of property and equipment consists of its purchase price, including import duties, and any directly attributable costs of bringing the asset to its working conditions and locations for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance costs, are normally recognized to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation commences when the property and equipment is available for its intended use. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent assets held for sale* and the date the item is derecognized.



Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Number of Years
Machinery and equipment	5 to 15
Building improvements	5 to 15
Office furniture, fixtures and equipment	2 to 5
Transportation equipment	5

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

The estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Where funds are borrowed specifically to finance a project, the amount capitalized represents actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is determined by applying the capitalization rate to the expenditures on the asset. The amount of capitalized borrowing cost, though, cannot exceed the actual borrowing cost incurred during the period.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Property and Equipment

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of the asset is the greater of net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

Impairment of Nonfinancial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's (CGU's) fair value less costs of disposal (FVLCD) and its value-in-use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not

generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assuming VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For nonfinancial assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exist, the Company estimate the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine that asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

Dividends Distribution

Dividends distribution are recognized as a liability and deducted from equity when approved by the Company's BOD. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding value-added tax (VAT). The following specific recognition criteria must also be met before revenue is recognized:

Toll processing fees

Toll processing fees are recognized when services are rendered.

Interest income

Interest income is recognized as the interest accrues using the EIR method.

Cost of Services
Cost of services is recognized when related services are rendered.

General and Administrative Expenses
General and administrative expenses include costs of administering the business and are recognized in profit or loss in the period in which they are incurred.

Retirement Costs
The retirement liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. Retirement benefits cost is actuarially determined using the projected unit credit actuarial valuation method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefits costs comprise the following:
(a) Service cost;
(b) Net interest on the defined retirement benefits liability;
(c) Remeasurements of defined retirement benefits liability

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the retirement benefits liability is the change during the period in the retirement benefits liability that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the retirement benefits liability. Net interest on the retirement benefits liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on the defined retirement benefits liability) are recognized immediately in other comprehensive income in the period in which they arise and subsequently closed to accumulated earnings. Remeasurements are not reclassified to the profit or loss in subsequent periods.

Value-added Tax (VAT)
Expenses and assets are recognized, net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of the acquisition of asset or as part of the expense item, as applicable
- When receivable and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable, to the taxation authority is included as part of receivables or payables in the statement of financial position.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for (a), (c) and (d) scenarios above, and at the date of renewal or extension period for scenario (b).

Company as lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes

Current tax

Current tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT) to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of tax credits from unused NOLCO and excess of unused MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.



Deferred tax item recognized outside the statements of comprehensive income is recognized in correlation to the underlying transaction either in statements of other comprehensive income or directly in equity.

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statement. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statement but disclosed in the notes to financial statement when an inflow of economic benefits is probable.

Events after the Reporting Date
Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statement. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and such estimates will be adjusted accordingly, when the effects become determinable.

Judgments
The Company believes that it has no significant judgments made in 2017 and 2016.

Accounting Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year follows:

Impairment of property and equipment
Internal and external sources of information are reviewed at each reporting date to identify indications that the property and equipment of the Company may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Management assessed that there was no indication of impairment on the Company's property and equipment as of December 31, 2017 and 2016. The carrying values of property and equipment as of December 31, 2017 and 2016 amounted to ₱116,463,783 and ₱148,014,407, respectively (Note 8).

Recognition of deferred income tax assets
The carrying value of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Total recognized gross deferred income tax

assets amounted to ₱1,050,918 and ₱938,109 as of December 31, 2017 and 2016, respectively, since management believes that the Company will have sufficient future taxable income to allow the recognition of deferred income tax assets on the deductible temporary differences (Note 15).

Estimation of retirement costs
The cost of defined benefit retirement plans as well as the present value of the retirement obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement liability as of December 31, 2017 and 2016 amounted to ₱3,503,059and ₱3,127,030, respectively (Note 13).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefit increases are based on expected future inflation rates in the country. Further details about the assumptions used are provided in Note 13.

4. Cash on Hand and in Banks

	2017	2016
Cash on hand	**₱5,000**	₱5,000
Cash in banks	**3,085,296**	1,841,372
	₱3,090,296	₱1,846,372

Interest income earned from cash in banks amounted to ₱2,920 and ₱3,684, for the years ended December 31, 2017 and 2016, respectively.

5. Receivables

The Company's receivables amounted to ₱100,244 and ₱78,278 as of December 31, 2017 and 2016, respectively. This pertains to the Company's receivable from officers and employees and claims against SSS.

6. Inventories

Inventories comprising of spare parts and supplies amounted to ₱10,412,430 and ₱15,711,825 as of December 31, 2017 and 2016, respectively, and are carried at cost.

7. Other Current Assets

	2017	2016
Creditable withholding tax	**₱10,879,812**	₱8,914,966
Deposits	**634,034**	634,034
	₱11,513,846	₱9,549,000

Deposits include non-refundable cash deposits for utilities.

8. Property and Equipment

2017

	Machinery and Equipment	Building Improvements	Office Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost						
Beginning of year	**₱378,785,820**	**₱68,655,723**	**₱4,715,184**	**₱7,105,317**	**₱2,947,591**	**₱462,209,635**
Disposal	**–**	**–**	**–**	**(425,000)**	**–**	**(425,000)**
End of year	**378,785,820**	**68,655,723**	**4,715,184**	**6,680,317**	**2,947,591**	**461,784,635**
Accumulated Depreciation						
Beginning of year	**264,236,568**	**37,145,150**	**4,158,045**	**6,511,225**	**2,144,240**	**314,195,228**
Disposal	**–**	**–**	**–**	**(425,000)**	**–**	**(425,000)**
Depreciation (Note 10)	**25,371,817**	**5,205,374**	**376,530**	**396,065**	**200,838**	**31,550,624**
End of year	**289,608,385**	**42,350,524**	**4,534,575**	**6,482,290**	**2,345,078**	**345,320,852**
Net book values	**₱89,177,435**	**₱26,305,199**	**₱180,609**	**₱198,027**	**₱602,513**	**₱116,463,783**

2016

	Machinery and Equipment	Building Improvements	Office Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Beginning of year	₱380,266,177	₱69,037,598	₱5,020,408	₱7,105,317	₱2,947,591	₱23,302,312	₱487,679,403
Transfer (Note 14)	(1,480,357)	(381,875)	(305,224)	–	–	(23,302,312)	(25,469,768)
End of year	378,785,820	68,655,723	4,715,184	7,105,317	2,947,591	–	462,209,635
Accumulated Depreciation							
Beginning of year	235,258,453	31,848,846	3,770,290	5,385,731	1,923,784	–	278,187,104
Depreciation (Note 10)	28,978,115	5,296,304	387,755	1,125,494	220,456	–	36,008,124
End of year	264,236,568	37,145,150	4,158,045	6,511,225	2,144,240	–	314,195,228
Net book values	₱114,549,252	₱31,510,573	₱557,139	₱594,092	₱803,351	–	₱148,014,407

9. Accounts Payable and Accrued Liabilities

	2017	2016
Trade - third parties	**₱2,430,607**	₱7,630,990
Due to related party (Note 14)	**34,690,105**	22,827,501
Accrued liabilities:		
Outside services	**4,403,907**	6,569,915
Profit bonus	**2,630,630**	2,467,579
Others	**5,077,129**	4,790,534
VAT payable	**652,764**	294,189
Others	**954,013**	1,753,620
	₱50,839,155	₱46,334,328

Other accrued liabilities include payroll related accruals for salaries and wages, accrued expenses for utilities, contracted services, and other operating expenses. Others include customers' deposits, withholding taxes payables and other nontrade liabilities.

10. **Cost of Sales and Services**

	2017	2016
Outside services	**₱54,324,375**	₱49,976,696
Depreciation (Note 8)	**31,550,624**	36,008,124
Utilities	**29,799,898**	27,739,463
Personnel costs (Note 12)	**8,516,514**	8,400,690
Repairs and maintenance	**4,476,163**	6,729,157
Insurance	**971,039**	1,076,368
Rent	**118,000**	279,028
Fuel and oil	**–**	187,422
Others	**205,387**	838,703
	₱129,962,000	₱131,235,651

11. **General and Administrative Expenses**

	2017	2016
Taxes, duties and license fees	**₱3,814,132**	₱3,817,053
Penalties	**1,850,436**	–
Transportation and travel	**–**	105,190
Personnel costs (Note 12)	**–**	6,717
Rent	**–**	6,139
Others	**2,357**	46,401
	₱5,666,925	₱3,981,500

Penalties refer to surcharges on tax deficiency pertaining to taxable year 2013 (Note 15).

12. **Personnel Costs**

	2017	2016
Salaries, wages and other benefits	**₱7,396,573**	₱7,352,165
Retirement benefits costs (Note 13)	**376,029**	304,761
Others	**743,912**	750,481
	₱8,516,514	₱8,407,407

Breakdown of personnel costs charged as follow:

	2017	2016
Cost of sales and services (Note 10)	**₱8,516,514**	₱8,400,690
General and administrative expenses (Note 11)	**–**	6,717
	₱8,516,514	₱8,407,407

13. **Retirement Benefits Costs**

The Company maintains an unfunded noncontributory defined benefit retirement plan which provides for separation and severance benefits to all eligible employees based on a certain percentage of the employee's final monthly salary at the time of normal retirement. The normal retirement age is 60 years and older, or has served at least five years of continuous service with the Company; or upon reaching the mandatory retirement age of 65 years. Retirement liability is determined in accordance with an actuarial study and based on the employee's years of service and final covered compensation.

The table below summarizes the components of the retirement benefits costs recognized in profit or loss.

	2017	2016
Current service cost	**₱226,423**	₱168,979
Interest cost	**149,606**	135,782
	₱376,029	₱304,761

Movement in the present value of defined benefit obligation are as follows:

	2017	2016
Beginning of year	**₱3,127,030**	₱2,766,010
Current service cost	**226,423**	168,979
Interest cost	**149,606**	135,782
Remeasurements on:		
Actuarial gain arising from deviations of experience from assumption	–	110,458
Actual loss arising from changes in financial assumptions	–	(54,199)
End of year	**₱3,503,059**	₱3,127,030

Changes in net retirement obligation:

	2017	2016
Beginning of year	**₱3,127,030**	₱2,766,010
Retirement benefits cost	**376,029**	304,761
Re-measurement loss	–	56,259
End of year	**₱3,503,059**	₱3,127,030

The principal actuarial assumptions used to determine the retirement benefits costs and liability in 2017 and 2016 follow:

Discount rate	**5.3%**
Salary increase	**5%**

The latest actuarial valuation is as of December 31, 2016. The discount rates in 2017 and 2016 were based on PDEX PDST-R2 using the tenor of 25 years.

The discount rate and salary increase rate were identified as significant actuarial assumptions. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on defined benefit obligation as of December 31, 2017, assuming all other assumptions were held constant.

	Increase/ (Decrease)	Effect on Defined Benefit Obligation
Discount rate	(1.00%)	(₱269,901)
	1.00%	314,022
Salary increase	(1.00%)	(327,108)
	1.00%	285,573

The maturity analysis of undiscounted expected benefit payments follow:

Plan year	Normal retirement
Less than one year	₱608,537
More than one year to five years	681,915
More than five years to 10 years	1,428,858
More than 10 years to 15 years	697,919
More than 15 years to 20 years	6,418,242
More than 20 years	2,803,692

14. **Related Party Transactions**

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating transactions. Such relationships also exists between and/or among entities which are under common control with the reporting entity and its key management personnel, directions or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The Company's significant transactions with related parties follow:

		Transactions for the Years ended December 31		Outstanding Balance as of December 31		
Nature of Transaction	Terms and Conditions	**2017**	2016	**2017**	2016	Financial Statement Account
Parent Company						
RFM Corporation						
Toll processing fees	Non-interest bearing, payable within 30; Unsecured and will be settled in cash	**₱136,899,980**	₱140,934,702	**₱–**	₱–	Revenue
Advances on nontrade transactions	Noninterest-bearing; proceeds to be applied on advances from Parent Company	**₱11,862,604**	₱92,230,405	**₱34,690,105**	₱22,827,501	Trade payables (Note 9)
				₱34,690,105	₱22,827,501	

In June 2013, the Company and the Parent Company entered into a toll processing agreement wherein the Company agrees to manufacture and store the Parent Company's products by providing skilled manpower, supervision, tools, equipment and all related works and services necessary to manufacture and store the products in accordance with the quality standards set by the Parent Company.

The Company renewed its agreement for a period of one (1) year from January 1, 2017 to December 31, 2017.

15. **Income Taxes**

a. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income tax to the provision for income tax at the effective income tax rate follows:

	2017	2016
Provision for income tax computed at the statutory income tax rate	**₱81,905**	₱1,717,214
Additions to (reductions in) income tax resulting from:		
Interest income already subjected to final tax	**(876)**	(1,105)
Non-deductible expense	**555,131**	–
Provision for income tax	**₱636,160**	₱1,716,109

In 2017, the Company was assessed for tax deficiency for the taxable year ended December 31, 2013 amounting to ₱1,850,436. Interest expense related to said tax deficiency amounted to ₱1,150,960 which were also paid in 2017.

b. The components of the Company's net deferred income tax assets are as follows:

	2017	2016
Deferred income tax asset on:		
Retirement benefits liability	**₱1,050,918**	₱938,109
Deferred income tax liabilities on:		
Capitalized interest expense	**217,671**	241,856
	₱833,247	₱696,253

In 2012, the Company capitalized borrowing costs to its property and equipment amounting to ₱1,209,281. The Company amortizes these capitalized borrowing costs over the useful life of property and equipment. Total unamortized capitalized borrowing cost amounted to ₱725,569 and ₱806,187 as of December 31, 2017 and 2016, respectively.

c. Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

16. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's risk management is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit risk
Credit risks arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Company deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Company obtains collateral to secure sales of its products to customers.

The following table shows maximum exposure to credit for the Company's financial assets as of December 31, 2017 and 2016, without taking account of any collateral and other credit enhancements:

	2017	2016
Cash in banks (Note 4)	**₱3,085,296**	₱1,841,372
Receivables (Note 5)	**100,244**	78,278
	₱3,185,540	₱1,919,650

The tables below show the credit quality of the Company's financial assets based on its historical experience with the corresponding parties:

2017

	Neither past due nor impaired		**Past due but not**	**Past due and**	
	Excellent	**Good**	**Impaired**	**Impaired**	**Total**
Loans and receivables:					
Cash in banks	**₱3,085,296**	**₱–**	**₱–**	**₱–**	**₱3,085,296**
Receivables	**100,244**	–	–	–	**100,244**
	₱3,185,540	**₱–**	**₱–**	**₱–**	**₱3,185,540**

2016

	Neither past due nor impaired		Past due but not	Past due and	
	Excellent	Good	Impaired	Impaired	Total
Loans and receivables:					
Cash in banks	₱1,841,372	₱–	₱–	₱–	₱1,841,372
Receivables	78,278	–	–	–	78,278
	₱1,919,650	₱–	₱–	₱–	₱1,919,650

The credit quality of financial assets is managed by the Company using internal credit ratings. Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before due dates, or upon call by the Company if there are no pre-determined defined due dates. All other assets that are neither past due nor impaired are classified as "Good" accounts.

Liquidity risk
Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments. Management manages liquidity by achieving collection efficiency and obtaining advance payment from Parent Company.

The following tables show the maturity profile of the Company's financial liabilities (undiscounted amounts of principal and related interest) as well as the undiscounted cash flows from financial assets used for liquidity management:

2017

	Less than 3 months	**3 to 12 months**	**More than one year**	**Total**
Financial liabilities:				
Trade payables	**₱2,430,607**	**₱–**	**₱–**	**₱2,430,607**
Accrued liabilities	**12,111,666**	**–**	**–**	**12,111,666**
Due to related parties	**34,690,105**	**–**	**–**	**34,690,105**
Others*	**732,507**	**–**	**–**	**732,507**
	₱49,964,885	**₱–**	**₱–**	**₱49,964,885**

**Exclude government-related payable amounting to ₱221,506.*

2016

	Less than 3 months	3 to 12 months	More than one year	Total
Financial liabilities:				
Trade payables	₱7,630,990	₱–	₱–	₱7,630,990
Accrued liabilities	13,828,028	–	–	13,828,028
Due to related parties	22,827,501	–	–	22,827,501
Others*	1,493,284	–	–	1,493,284
	₱45,779,803	₱–	₱–	₱45,779,803

**Excludes government-related payable amounting to ₱260,336.*

As of December 31, 2017 and 2016, the Company has no financial instruments carried at fair value. Thus, disclosure on source of inputs using a three-level fair value hierarchy is not necessary.

17. Capital Management

The Company maintains a capital base to cover risk inherent to the business. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies and processes during years ended December 31, 2017 and 2016.

The Company considers the following as capital:

	2017	2016
Capital stock	**₱83,500,000**	₱83,500,000
Retained earnings	**7,174,833**	7,537,978
	₱90,674,833	₱91,037,978

18. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

The Company reported and/or paid the following applicable types of taxes for 2017:

Output VAT
The Company is a VAT-registered company with output VAT declaration of ₱27,474,452 for the year based on the amount reflected in the Revenue Account of ₱228,953,767.

Input VAT
The amount of VAT Input taxes claimed broken down into:

Beginning of the year	₱–
Current year's purchases:	
Services lodged under cost of goods sold	₱8,961,011
Claims for tax credit/refund and other adjustments	(8,961,011)
Balance at the end of the year	₱–

Other Taxes, Duties and License Fees
Other taxes, duties and license fees presented in 2017 profit or loss re included in:

General and administrative expenses:	
Real property taxes	₱2,563,442
Business taxes	1,223,983
Other taxes	26,707
	₱3,814,132

Withholding Taxes
Details of the Company's withholding taxes paid or accrued in 2017 follows:

Expanded withholding taxes (EWT)	₱1,624,484
Withholding taxes on compensation and benefits	735,234
	₱2,359,718

Tax Assessments and Cases
The Company has no deficiency tax assessments, whether protested or not. The Company has not been involved in any cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

ANNEX "B"

- **Audited Financial Statements of Cabuyao Logistics and Industrial Center, Inc. (CLIC) and Independent Auditor's Report for the Years 2015, 2016 and 2017**

Cabuyao Logistics and Industrial Center, Inc.

[Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.
(A Wholly Owned Subsidiary of RFM Corporation)]

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cabuyao Logistics and Industrial Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Cabuyao Logistics and Industrial Center, Inc. [formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc. (a wholly owned subsidiary of RFM Corporation)], which comprise the balance sheets as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cabuyao Logistics and Industrial Center, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 10 is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cabuyao Logistics and Industrial Center, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321614, January 4, 2016, Makati City

April 12, 2016

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

BALANCE SHEETS

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash in bank	**₱753,260**	₱694,721
Creditable withholding taxes	**1,579,826**	939,718
Total Current Assets	**2,333,086**	1,634,439
Noncurrent Asset		
Property, plant and equipment (Note 4):		
At cost	**331,656,864**	367,317,455
At appraised value	**218,838,000**	218,838,000
Total Noncurrent Assets	**550,494,864**	586,155,455
TOTAL ASSETS	**₱552,827,950**	₱587,789,894
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses	**₱148,022**	₱618,861
Provision	**6,000,000**	6,000,000
Current portion of advances from Parent Company (Note 5)	**399,165,040**	409,788,336
Total Current Liabilities	**405,313,062**	416,407,197
Noncurrent Liabilities		
Advances from Parent Company (Note 5)	**3,444,519**	2,619,149
Deferred income tax liability (Note 6)	**29,552,097**	29,552,097
Total Noncurrent Liabilities	**32,996,616**	32,171,246
Total Liabilities	**438,309,678**	448,578,443
Equity		
Capital stock - ₱100 par value		
Authorized - 400,000 shares		
Issued - 100,000 shares	**10,000,000**	10,000,000
Additional paid-in capital	**147,470,541**	147,470,541
Accumulated excess of nominal amounts over the present values of advances from Parent Company (Note 5)	**325,420,366**	325,420,366
Revaluation increment on land, net of deferred income tax effect	**68,954,893**	68,954,893
Deficit (Note 9)	**(437,327,528)**	(412,634,349)
Total Equity	**114,518,272**	139,211,451
TOTAL LIABILITIES AND EQUITY	**₱552,827,950**	₱587,789,894

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
REVENUE		
Rent income (Note 5)	**₱12,802,168**	₱12,109,777
EXPENSES		
Depreciation (Note 4)	**35,660,591**	35,775,510
Taxes and license fees	**1,246,022**	1,202,309
Insurance	**401,297**	591,605
Professional fees	**20,000**	120,000
	37,327,910	37,689,424
OTHER CHARGES		
Accretion expense (Note 5)	**(167,269)**	(157,194)
Others - net	**(168)**	(549)
	(167,437)	(157,743)
NET LOSS	**24,693,179**	25,737,390
OTHER COMPREHENSIVE INCOME	**–**	**–**
TOTAL COMPREHENSIVE LOSS	**₱24,693,179**	₱25,737,390

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Capital Stock	Additional Paid-in Capital	Accumulated Excess of Nominal Amounts over the Present Values of Advances from Parent Company	Revaluation Increment on Land, Net of Deferred Income Tax Effect	Deficit	Total
BALANCES AT DECEMBER 31, 2013	**₱10,000,000**	**₱147,470,541**	**₱325,420,366**	**₱68,954,893**	**(₱386,896,959)**	**₱164,948,841**
Total comprehensive loss	–	–	–	–	(25,737,390)	(25,737,390)
BALANCES AT DECEMBER 31, 2014	**10,000,000**	**147,470,541**	**325,420,366**	**68,954,893**	**(412,634,349)**	**139,211,451**
Total comprehensive loss for the year	–	–	–	–	(24,693,179)	(24,693,179)
BALANCES AT DECEMBER 31, 2015	**₱10,000,000**	**₱147,470,541**	**₱325,420,366**	**₱68,954,893**	**(₱437,327,528)**	**₱114,518,272**

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before Income tax	**(₱24,693,179)**	(₱25,737,390)
Adjustments for:		
Depreciation expense (Note 4)	**35,660,591**	35,775,510
Accretion expense (Note 5)	**167,269**	157,194
Operating income before working capital changes	**11,134,681**	10,195,314
Increase (decrease) in accrued expenses	**(470,839)**	206,424
Cash generated from operations	**10,663,842**	10,401,738
Income taxes paid, including creditable withholding taxes	**(640,108)**	(600,054)
Net cash from operating activities	**10,023,734**	9,801,684
CASH FLOW FROM FINANCING ACTIVITY		
Additional payments to Parent Company	**(9,965,195)**	(9,700,479)
NET INCREASE IN CASH IN BANK	**58,539**	101,205
CASH IN BANK AT BEGINNING OF YEAR	**694,721**	593,516
CASH IN BANK AT END OF YEAR	**₱753,260**	₱694,721

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Cabuyao Logistics and Industrial Center, Inc. [formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.] (the Company), a wholly owned subsidiary of RFM Corporation (RFM or the Parent Company), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 10, 2000.

The primary purpose of the Company is to lease all or any part of its real estate property.

Cabuyao Logistics and Industrial Center, Inc. have no employee and the Parent Company, RFM Corporation provides accounting and the administrative services at no cost to the Company.

The Company's registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

In 2015, the Company has no employees and that the administrative and accounting service requirements of the Company are being provided by the Parent Company at no cost.

Authorization for Issue of the Financial Statements

The financial statements of the Company were authorized for issue by the Board of Directors (BOD) on April 12, 2016.

2. Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for the Company's land, which is stated at appraised value. The financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2015. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to PFRSs* (2010 to 2012 cycle)
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  - PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

  - PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures - Key Management Personnel*
- *Annual Improvements to PFRSs* (2011 to 2013 cycle)
  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Ventures*
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*
  - PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements unless otherwise indicated. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning January 1, 2016

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
  The amendments address issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

  Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.



- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRSs. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income (OCI). The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
  The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:

  - The materiality requirements in PAS 1
  - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to PAS 16 and PAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortization*
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- Amendments to PAS 16 and PAS 41 - *Bearer Plants*
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.



- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRSs and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

- *Annual Improvements to PFRSs* (2012-2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
    Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
    PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    This amendment clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

  - PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue*
    This amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

  - PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
    The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective beginning January 1, 2017

- Amendments to PAS 7, *Disclosure Initiative*
  The amendments require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

- Amendments to PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Effective beginning January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version)
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Earlier application of final version of PFRS 9 is permitted. Retrospective application is required, but comparative information is not compulsory.

Effective beginning January 1, 2019

- PFRS 16, *Leases*
  The new standard introduces major changes in lease accounting. Under PFRS 16, lessees will no longer classify their leases as either operating or financing leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  PFRS 16 will replace PAS 17 and supersede the related interpretations. Earlier application is not permitted until the Financial Standards Reporting Council (FRSC) has adopted the new revenue recognition standard.

  The Company is currently studying the impact of future adoption of PFRS 16.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not

constitute a business, even if these assets are housed in a subsidiary. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transactions costs. The Company's financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial assets and financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each balance sheet date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2015 and 2014, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months of the balance sheet date. Otherwise, these are classified as noncurrent assets.

Other financial liabilities

This category pertains to financial liabilities that are not held for trading or not designated as FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost.

As of December 31, 2015 and 2014, the Company's other financial liabilities include accrued expenses and advances from Parent Company.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, and any directly attributable costs of bringing the assets to their working conditions and locations for their intended use. Expenditures incurred after the property, plant and equipment .income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standards of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.



Land is stated at revalued amount based on a valuation performed by an independent firm of appraisers. The increase in the valuation of land is credited to "Revaluation increment on land", net of related deferred income tax effect and presented under the equity section of the balance sheet.

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date. For subsequent revaluations, any resulting increase in the assets carrying amount as a result of the revaluation is credited directly to "Revaluation increment on land", net of related deferred income tax effect and presented under the equity section of the balance sheet. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. In case the asset is disposed, the related revaluation increment is transferred directly to retained earnings.

Depreciation or amortization is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Buildings and improvements	17 to 20
Machinery and equipment	15
Land improvements	15

The estimated useful lives and depreciation or amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when the asset is available for its intended use and ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

Property, plant and equipment are derecognized when either these are disposed or when these are permanently withdrawn from use and there is no more future economic benefits expected from their use or disposal

Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Property, Plant and Equipment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the assets is the greater of fair value less cost to sell and value-in-use. The fair value

less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares.

Additional Paid-in Capital
Additional paid-in capital represents the portion of the paid-in capital in excess over the par value of issued shares of capital stock.

Deficit
Deficit represent the cumulative balance of periodic net income and loss, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding output VAT. The following specific recognition criteria must also be met before revenue is recognized:

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Interest income
Interest income is recognized using the effective interest method.

Expense
Expenses are recognized in the period they are incurred.

Operating Leases
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease receipts under operating lease agreements are recognized as income on a straight-line basis over the term of the lease.



Income Taxes

Current income tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carry forward benefits of the net operating loss carryover (NOLCO) to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carry forward benefits of NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Events after the balance sheet date that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to financial statements when material.



3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets of liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management Note 9
- Financial risk management and policies Note 8

Judgment

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Operating lease - Company as lessor

The Company entered into several lease agreements with the Parent Company for the latter's use of the Company's warehouse facilities. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the assets, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases (see Note 5).

Recognition of deferred income tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Company has not recognized deferred income tax assets on deductible temporary differences and carryforward benefits of NOLCO amounting to ₱102,382,350 and ₱93,178,845 as of December 31, 2015 and 2014, respectively, because management believes that it is more likely than not that these will not be realized in the future (see Note 6).

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Valuation of land under revaluation basis

The Company carries its land at fair value, with changes in fair value being recognized in the statement of income. The Company engaged an independent valuation specialist to assess the fair value of land as at December 31, 2015. Land is measured at revalued amounts with changes in fair value being recognized in OCI. Land were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

The key assumptions used to determine the fair value of the properties are provided in Note 4.

Impairment of property, plant and equipment
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data and from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flows (DCF) model. The cash flows are derived from the budget for the next ten years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The carrying value of buildings and improvements, and machinery and equipment amounted to ₱326,881,017 and ₱362,013,758 as of December 31, 2015 and 2014, respectively (see Note 4).

4. Property, Plant and Equipment

December 31, 2015:

	Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
Cost				
January 1 and December 31	**₱7,917,749**	**₱183,062,724**	**₱395,524,135**	**₱586,504,608**
Accumulated Depreciation and Amortization				
January 1	**2,614,052**	**58,447,579**	**137,769,087**	**198,830,718**
Depreciation and amortization	**527,850**	**9,714,408**	**25,418,333**	**35,660,591**
December 31	**3,141,902**	**68,161,987**	**163,187,420**	**234,491,309**
Accumulated Impairment Loss				
January 1 and December 31	**–**	**–**	**20,356,435**	**20,356,435**
Net Book Values	**₱4,775,847**	**₱114,900,737**	**₱211,980,280**	**₱331,656,864**
Land - At Appraised Value				
January 1 and December 31				**₱218,838,000**

December 31, 2014:

	Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
Cost				
January 1 and December 31	₱7,917,749	₱183,062,724	₱395,524,135	₱586,504,608
Accumulated Depreciation and Amortization				
January 1	2,086,202	48,585,344	112,383,662	163,055,208
Depreciation and amortization	527,850	9,862,235	25,385,425	35,775,510
December 31	2,614,052	58,447,579	137,769,087	198,830,718
Accumulated Impairment Loss				
January 1 and December 31	–	–	20,356,435	20,356,435
Net Book Values	₱5,303,697	₱124,615,145	₱237,398,613	₱367,317,455
Land - At Appraised Value				
January 1 and December 31				₱218,838,000

The Company's parcel of land with a size of 57,589 sqm in Cabuyao, Laguna was appraised in 2013. The land has a fair value amounting to ₱218,838,000 as of December 30, 2013 determined based on valuation performed by independent appraiser whose report was dated January 13, 2014. Management believes that there is no significant change in the fair value of the land as of December 30, 2013 to December 31, 2015 because there were no significant improvement made to the land since last appraisal and no impairment indications existed as of December 31, 2015.

The fair value of the land was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-3% to -5%), and location (-5%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of the land.

The cost of the land as of December 31, 2015 and 2014 amounted to ₱120,331,010.

5. Related Party Transactions

The Company has related party transactions with its Parent Company during the years ended December 31 as follows:

Related Party	Nature of Transactions	Year	Amount/ Volume	Outstanding Receivable	Terms and Conditions
Parent Company					
RFM Corporation	Advances	**2015**	**₱3,882,393**	**₱402,976,948**	Non-interest bearing;
		2014	2,287,288	412,942,143	Secured by property and equipment amounting to ₱300,000,000.
	Lease of facilities	**2015**	**12,802,168**	–	Renewed annually;
		2014	12,109,777	–	Unsecured, no impairment.

a. Advances from the Parent Company were discounted at date of grant using risk-free rates plus a risk premium and using an expected maturity of five years. The difference between the computed present value of the advances at grant date and the nominal amount is presented as "Accumulated excess of nominal amounts over the present values of advances from Parent Company" in the equity section of the balance sheets. Unamortized discount amounted to ₱367,389 and ₱534,658 in 2015 and 2014, respectively.

b. Lease agreements were entered into between the Company and the Parent Company's Sales and Distribution Division in April 2014 and for Milk and Juice Division in April 2009 for the use of its operational service areas. In 2015, RFM renewed its lease agreements covering the period January 1, 2015 to December 31, 2015. Monthly rental payments range from ₱2,030 to ₱726,300 depending on the type of facility used.

6. Income Taxes

a. The Company did not recognize deferred income tax assets on the carryforward benefits of NOLCO and accumulated impairment loss on machinery and equipment as of December 31, 2015 and 2014 because the Company neither have any taxable temporary differences nor any tax planning opportunities available that could support the recognition of these losses

	2015	2014
Carryforward benefits of NOLCO	**₱82,025,915**	₱72,822,410
Accumulated impairment loss on machinery and equipment	**20,356,435**	20,356,435

b. Deferred income tax liability represents the tax effect of revaluation increment on land amounting ₱29,552,097 as of December 31, 2015 and 2014.

c. As of December 31, 2015, the Company's NOLCO, which can be carried forward and claimed as deduction from future taxable income follows:

Year incurred	Available Until	NOLCO	Tax Effect
2015	2018	₱24,255,407	₱7,276,622
2014	2017	24,886,336	7,465,901
2013	2016	32,884,172	9,865,252
		₱82,025,915	₱24,607,775

The following are the movements of NOLCO:

	2015	2014
NOLCO:		
Beginning of year	**₱72,822,410**	₱57,033,862
Additions	**24,255,407**	24,886,336
Expirations	**(15,051,902)**	(9,097,788)
End of year	**₱82,025,915**	₱72,822,410

d. The Company is in a gross taxable loss position in 2015 and 2014, thus, not subject to minimum corporate income tax. A reconciliation of the benefit from income tax computed at the statutory income tax rate based on net loss to the provision for income tax follows:

	2015	2014
Benefit from income tax at statutory income tax rate	**(₱7,407,954)**	(₱7,721,217)
Additions to income tax resulting from:		
Deductible temporary difference and carryforward benefits of NOLCO for which no deferred income tax assets were recognized	**7,276,622**	7,465,901
Accretion expense	**50,181**	47,157
Nondeductible expenses	**81,151**	208,159
Provision for income tax	**₱–**	₱–

8. Financial Instruments and Financial Risk Management Objectives and Policies

The Company's financial and risk management strategies are handled on a group wide basis under monitoring by the Parent Company. The Company's Board of Directors review and agree on policies for managing financial risks.

As of December 31, 2015 and 2014, the Company is exposed to liquidity risk.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management is tasked to minimize liquidity risk though prudent financial planning and execution to meet operating requirements through cash advances from the Parent Company.

The maturity profile of the Company's financial liabilities based on contractual undiscounted payments follows:

December 31, 2015:

	Less than one year	**More than one year**	**Total**
Accrued expenses	**₱148,022**	**₱–**	**₱148,022**
Advances from Parent Company	**399,165,040**	**3,811,908**	**402,976,948**
Total	**₱399,313,062**	**₱3,811,908**	**₱403,124,970**

December 31, 2014:

	Less than one year	More than one year	Total
Accrued liabilities	₱618,861	₱–	₱618,861
Advances from Parent Company	409,788,336	3,153,807	412,942,143
Total	₱410,407,197	₱3,153,807	₱413,561,004

The Company's outstanding financial liabilities may be settled using cash in bank. Future income from lease agreements with the Parent Company may be applied against advances from the Parent Company.

9. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern.

The Company considers the following as capital:

	2015	2014
Capital stock	**₱10,000,000**	₱10,000,000
Additional paid-in capital	**147,470,541**	147,470,541
Accumulated excess of nominal amounts over present values of advances from Parent Company	**325,420,366**	325,420,366
Deficit	**(437,327,528)**	(412,634,349)
	₱45,563,379	₱70,256,558

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2015 and 2014.

10. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

The Company reported the following types of taxes for the year ended December 31, 2015.

Output VAT
The Company reported lease income of ₱12,802,168 and output VAT of ₱1,536,260.

Taxes and License Fees

Real property taxes	₱1,025,760
Business taxes	204,212
Community tax certificate	10,500
Others	5,550
Total	₱1,246,022

Cabuyao Logistics and Industrial Center, Inc.

[Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.
(A Wholly Owned Subsidiary of RFM Corporation)]

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cabuyao Logistics and Industrial Center Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cabuyao Logistics and Industrial Center, Inc [formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc. (a wholly owned subsidiary of RFM Corporation)] (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 10 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cabuyao Logistics and Industrial Center, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908673, January 3, 2017, Makati City

April 4, 2017

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash in bank	**₱362,957**	₱753,260
Creditable withholding taxes	**3,493,581**	1,579,826
Total Current Assets	**3,856,538**	2,333,086
Noncurrent Asset		
Property, plant and equipment (Note 4):		
At cost	**295,958,293**	331,656,864
At appraised value	**218,838,000**	218,838,000
Total Noncurrent Assets	**514,796,293**	550,494,864
TOTAL ASSETS	**₱518,652,831**	₱552,827,950
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses	**₱419,928**	₱148,022
Provision (Note 7)	**6,000,000**	6,000,000
Current portion of advances from Parent Company (Note 5)	**360,089,119**	399,165,040
Total Current Liabilities	**366,509,047**	405,313,062
Noncurrent Liabilities		
Advances from Parent Company (Note 5)	**5,649,400**	3,444,519
Deferred income tax liability (Note 6)	**29,552,097**	29,552,097
Total Noncurrent Liabilities	**35,201,497**	32,996,616
Total Liabilities	**401,710,544**	438,309,678
Equity		
Capital stock - ₱100 par value		
Authorized - 400,000 shares		
Issued - 100,000 shares	**10,000,000**	10,000,000
Additional paid-in capital	**147,470,541**	147,470,541
Accumulated excess of nominal amounts over the present values of advances from Parent Company (Note 5)	**325,420,366**	325,420,366
Revaluation increment on land, net of deferred income tax effect	**68,954,893**	68,954,893
Deficit (Note 9)	**(434,903,513)**	(437,327,528)
Total Equity	**116,942,287**	114,518,272
TOTAL LIABILITIES AND EQUITY	**₱518,652,831**	₱552,827,950

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUE		
Rent income (Note 5)	**₱39,992,779**	₱12,802,168
EXPENSES		
Depreciation (Note 4)	**35,698,571**	35,660,591
Taxes and license fees	**1,243,973**	1,246,022
Insurance	**302,156**	401,297
Professional fees	**55,712**	20,000
Others	**4,390**	–
	37,304,802	37,327,910
OTHER CHARGES		
Accretion expense	**(177,992)**	(167,269)
Others – net	**(86)**	(168)
	(178,078)	(167,437)
INCOME (LOSS) BEFORE INCOME TAX	**2,509,899**	(24,693,179)
PROVISION FOR INCOME TAX – Current (Note 6)	**85,884**	–
NET INCOME (LOSS)	**2,424,015**	(24,693,179)
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱2,424,015**	(₱24,693,179)

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock	Additional Paid-in Capital	Accumulated Excess of Nominal Amounts over the Present Values of Advances from Parent Company	Revaluation Increment on Land, Net of Deferred Income Tax Effect	Deficit	Total
BALANCES AT DECEMBER 31, 2014	**₱10,000,000**	**₱147,470,541**	**₱325,420,366**	**₱68,954,893**	**(₱412,634,349)**	**₱139,211,451**
Total comprehensive loss for the year	–	–	–	–	(24,693,179)	(24,693,179)
BALANCES AT DECEMBER 31, 2015	**10,000,000**	**147,470,541**	**325,420,366**	**68,954,893**	**(437,327,528)**	**114,518,272**
Total comprehensive income for the year	–	–	–	–	2,424,015	2,424,015
BALANCES AT DECEMBER 31, 2016	**₱10,000,000**	**₱147,470,541**	**₱325,420,366**	**₱68,954,893**	**(434,903,513)**	**₱116,942,287**

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱2,509,899**	(₱24,693,179)
Adjustments for:		
Depreciation expense (Note 4)	**35,698,571**	35,660,591
Accretion expense	**177,992**	167,269
Operating income before working capital changes	**38,386,462**	11,134,681
Increase in Other Current Assets	**(1,913,755)**	(640,108)
Decrease (increase) in Accrued liabilities	**271,906**	(470,839)
Cash generated from (used in) operations	**36,744,613**	10,023,734
Income taxes paid, including creditable withholding taxes	**(85,884)**	–
Net cash from (used in) operating activities	**36,658,729**	10,023,734
CASH FLOW FROM FINANCING ACTIVITY		
Additional advances (payments) to Parent Company	**(37,049,032)**	(9,965,195)
NET INCREASE (DECREASE) IN CASH IN BANK	**(390,303)**	58,539
CASH IN BANK AT BEGINNING OF YEAR	**753,260**	694,721
CASH IN BANK AT END OF YEAR	**₱362,957**	₱753,260

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(Formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.)
(A Wholly Owned Subsidiary of RFM Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Cabuyao Logistics and Industrial Center, Inc. [formerly Cabuyao Meat Processing Corporation and Bringmenow, Inc.] (the Company), a wholly owned subsidiary of RFM Corporation (RFM or the Parent Company), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 10, 2000.

The primary purpose of the Company is to lease all or any part of its real estate property.

Cabuyao Logistics and Industrial Center, Inc. has no employee and the Parent Company, RFM Corporation, provides accounting and the administrative services at no cost to the Company.

The Company's registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issue of the Financial Statements

The financial statements were authorized for issue in accordance with a resolution by the Company's Board of Directors (BOD) on April 4, 2017.

2. Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for the Company's land, which is stated at appraised value. The financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*

- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is currently studying the impact of future adoption of PFRS 15.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with

early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Cash in Banks
Cash refers to cash deposited in bank.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or

- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transactions costs. The Company's financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or

a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2016 and 2015, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current except for maturities greater than 12 months after the reporting date. These are classified as noncurrent liabilities.

As of December 31, 2016 and 2015, the Company's other financial liabilities include accounts payable and accrued liabilities, and amounts due to related parties.

Impairment of Financial Assets
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company assesses whether objective evidence of impairment exists individually.

The carrying amount of the impaired asset is reduced either directly or through use of an allowance account and the loss is recognized in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increase or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use of data is made which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, and any directly attributable costs of bringing the assets to their working conditions and locations for their intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance costs, are normally recognized in profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained



from the use of an item of property, plant and equipment beyond its originally assessed standards of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Land is stated at appraised value based on a valuation performed by an independent firm of appraisers. The increase in the valuation of land is credited to "Revaluation increment on land" account, net of deferred income tax effect, and presented under the equity section of the consolidated statement of financial position.

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings.

Depreciation or amortization is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Buildings and improvements	17 to 20
Machinery and equipment	15
Land Improvements	15

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal.

Fully depreciated assets are in the accounts until they are no longer in use and no further depreciation is recognized in the consolidated statement of income.

Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Property, Plant and Equipment
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares.

Additional Paid-in Capital
Additional paid-in capital represents the portion of the paid-in capital in excess over the par value of issued shares of capital stock.

Deficit
Deficit represent the cumulative balance of periodic net income and loss, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding output VAT. The following specific recognition criteria must also be met before revenue is recognized:

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Interest income
Interest income is recognized using the effective interest method.

Expense
Expenses are recognized in the period they are incurred.



Income Taxes

Current income tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credit from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT], and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets of liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Financial risk management and policies (see Note 8)
- Capital management (see Note 9)

Recognition of deferred income tax assets
Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Company has not recognized deferred income tax assets on deductible temporary differences and carryforward benefits of NOLCO and MCIT amounting to ₱69,584,062 and ₱102,382,350 as of December 31, 2016 and 2015, respectively, because management believes that it is more likely than not that these will not be realized in the future (see Note 6).

Valuation of land under revaluation basis
The Company carries its land at fair value, with changes in fair value being recognized in the statement of income. The Company engaged an independent valuation specialist to assess the fair value of land as at December 31, 2015. Land is measured at revalued amounts with changes in fair value being recognized in OCI. Land were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

The key assumptions used to determine the fair value of the properties are provided in Note 4.

Impairment of property, plant and equipment
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data and from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flows (DCF) model. The cash flows are derived from the budget for the next ten years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The carrying value of buildings and improvements, and machinery and equipment amounted to ₱291,710,296 and ₱326,881,017 as of December 31, 2016 and 2015, respectively (see Note 4).



4. Property, Plant and Equipment

December 31, 2016:

	Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
Cost				
January 1 and December 31	**₱7,917,749**	**₱183,062,724**	**₱395,524,135**	**₱586,504,608**
Accumulated Depreciation and Amortization				
January 1	**3,141,902**	**68,161,987**	**163,187,420**	**234,491,309**
Depreciation and amortization	**527,850**	**9,735,705**	**25,435,016**	**35,698,571**
December 31	**3,669,752**	**77,897,692**	**188,622,436**	**270,189,880**
Accumulated Impairment Loss				
January 1 and December 31	**₱–**	**₱–**	**₱20,356,435**	**₱20,356,435**
Net Book Values	**₱4,247,997**	**₱105,165,032**	**₱186,545,264**	**₱295,958,293**
Land - At Appraised Value				
January 1 and December 31				**₱218,838,000**

December 31, 2015:

	Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
Cost				
January 1 and December 31	₱7,917,749	₱183,062,724	₱395,524,135	₱586,504,608
Accumulated Depreciation and Amortization				
January 1	2,614,052	58,447,579	137,769,087	198,830,718
Depreciation and amortization	527,850	9,714,408	25,418,333	35,660,591
December 31	3,141,902	68,161,987	163,187,420	234,491,309
Accumulated Impairment Loss				
January 1 and December 31	–	–	20,356,435	20,356,435
Net Book Values	₱4,775,847	₱114,900,737	₱211,980,280	₱331,656,864
Land - At Appraised Value				
January 1 and December 31				₱218,838,000

The Company's parcels of land were stated at their revalued amounts based on an appraisal made by a SEC-accredited independent appraisers dated January 13, 2014. The parcels of land, with a size of 57,589 sqm in Cabuyao, Laguna, has fair values of ₱218,838,000 as of December 31, 2016 and 2015.

The appraised value of the land was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-3% to -5%), and location (-5%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of the land.

The cost of the land as of December 31, 2016 and 2015 amounted to ₱120,331,010.

Aggregate cost of fully depreciated buildings and improvements still in use amounted to P1,449,044 as of December 31, 2016 and 2015.

5. Related Party Transactions

Related party relationship exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and or among the reporting enterprises and their key management personnel, directors or its stockholders.

The Company has related party transactions with its Parent Company during the years ended December 31 as follows:

Related Party	Nature of Transactions	Year	Amount Volume	Outstanding Payable	Terms and Conditions
Parent Company					
RFM Corporation	Advances	**2016**	**₱2,943,746**	**₱365,927,919**	Non-interest bearing;
		2015	3,882,393	402,976,948	Secured by property and equipment amounting to ₱300,000,000.
	Lease of facilities	**2016**	**39,992,779**	**–**	Renewed annually;
		2015	12,802,168	–	Unsecured, no impairment.

a. Advances from the Parent Company were discounted at date of grant using risk-free rates plus a risk premium and using an expected maturity of five years. The difference between the computed present value of the advances at grant date and the nominal amount is presented as "Accumulated excess of nominal amounts over the present values of advances from Parent Company" in the equity section of the statement of financial position. The balance of the advances is net of the unamortized discount amounting to ₱189,397 and ₱367,389 as of December 31, 2016 and 2015, respectively.

b. Lease agreements were entered into between the Company and the Parent Company's Sales and Distribution Division in April 2014 and for Milk and Juice Division in April 2009 for the use of its operational service areas. In 2016, RFM renewed its lease agreements covering the period January 1, 2016 to December 31, 2016. Additional lease agreements were entered into between the Company and the Parent's Pasta Contract Manufacturing Division and Private Label Manufacturing Division in 2016. Monthly rental payments range from ₱104,400 to ₱1,436,040 depending on the type of facility used.

6. Income Taxes

a. The Company did not recognize deferred income tax assets on the carryforward benefits of NOLCO, MCIT and accumulated impairment loss on machinery and equipment as of December 31, 2016 and 2015 because the Company neither have any taxable temporary differences nor any tax planning opportunities available that could support the recognition of these losses.

	2016	2015
Carry forward benefits of NOLCO	**₱49,141,743**	₱82,025,915
Accumulated impairment loss on machinery and equipment (Note 4)	**20,356,435**	20,356,435
MCIT	**85,884**	–

b. Deferred income tax liability represents the tax effect of revaluation increment on land amounting ₱29,552,097 as of December 31, 2016 and 2015.

c. The details of NOLCO and MCIT as of December 31, 2016 follow:

Year incurred	Available Until	NOLCO	MCIT
2014	2017	₱24,886,336	₱–
2015	2018	24,255,407	–
2016	2019	–	85,884
		₱49,141,743	₱85,884

The following are the movements of NOLCO and MCIT:

	NOLCO		MCIT	
	2016	2015	**2016**	2015
Beginning	**₱82,025,915**	₱72,822,410	**₱–**	₱–
Additions	**–**	24,255,407	**85,884**	–
Applications	**(2,687,892)**	–	–	–
Expirations	**(30,196,280)**	(15,051,902)	–	–
Ending	**₱49,141,743**	₱82,025,915	**₱85,884**	₱–

d. A reconciliation of the benefit from income tax computed at the statutory income tax rate based on net income (loss) to the provision for income tax follows:

	2016	2015
Provision for (benefit from) income tax at statutory income tax rate	**₱752,970**	(₱7,407,954)
Additions to (reductions in) income tax resulting from:		
Deductible temporary difference and carryforward benefits of NOLCO for which no deferred income tax assets were recognized	**(806,368)**	7,276,622
Accretion expense	**53,398**	50,181
Nondeductible expenses	**–**	81,151
Excess of MCIT over RCIT in the current year	**85,884**	–
Provision for income tax	**₱85,884**	₱–

7. Provisions and Contingencies

The Company is a party to certain legal and regularity matters that require the recognition of provision for related probable losses against the Company. Management and its legal counsel on an annual basis reassess its estimates to consider new relevant information. As of December 31, 2016 and 2015, provision for probable losses recorded under "Provision" account on the current liabilities section of the statement of financial position amounted to ₱6,000,000.

The disclosures of additional details beyond the present disclosures may seriously prejudice the Company's position and negotiation strategies with respect to these matters. Thus as allowed under PAS 37, Provisions, Contingent Liabilities, and Contingent Assets, only a general description is provided.

8. Financial Instruments and Financial Risk Management Objectives and Policies

The Company's financial and risk management strategies are handled on a group wide basis under monitoring by the Parent Company. The Company's Board of Directors review and agree on policies for managing financial risks.

As of December 31, 2016 and 2015, the Company is exposed to liquidity risk. It has no significant exposure to credit risk because its financial asset consist of cash in bank.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management is tasked to minimize liquidity risk though prudent financial planning and execution to meet operating requirements through cash advances from the Parent Company.

The maturity profile of the Company's financial liabilities based on contractual undiscounted payments follows:

December 31, 2016:

	Less than one year	**More than one year**	**Total**
Accrued expenses	**₱419,928**	**₱–**	**₱419,928**
Advances from Parent Company	**–**	**365,738,519**	**365,738,519**
Total	**₱419,928**	**₱365,738,519**	**₱366,158,447**

December 31, 2015:

	Less than one year	More than one year	Total
Accrued liabilities	₱148,022	₱–	₱148,022
Advances from Parent Company	399,165,040	3,811,908	402,976,948
Total	₱399,313,062	₱3,811,908	₱403,124,970

The Company's outstanding financial liabilities may be settled using cash in bank. Future income from lease agreements with the Parent Company may be applied against advances from the Parent Company.

9. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

The Company considers the following as capital:

	2016	2015
Capital stock	**₱10,000,000**	₱10,000,000
Additional paid-in capital	**147,470,541**	147,470,541
Accumulated excess of nominal amounts over present values of advances from Parent Company	**325,420,366**	325,420,366
Deficit	**(434,903,513)**	(437,327,528)
	₱47,987,394	₱45,563,379

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

10. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company reported the following types of taxes for the year ended December 31, 2016.

Output VAT
The Company reported lease income of ₱39,992,779 and output VAT of ₱4,799,133.

Taxes and License Fees

Real property taxes	₱1,025,760
Business taxes	190,612
Others	27,601
Total	₱1,243,973

Cabuyao Logistics and Industrial Center, Inc.

(A Wholly Owned Subsidiary of RFM Corporation)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Cabuyao Logistics and Industrial Center, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cabuyao Logistics and Industrial Center, Inc. (a wholly owned subsidiary of RFM Corporation), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

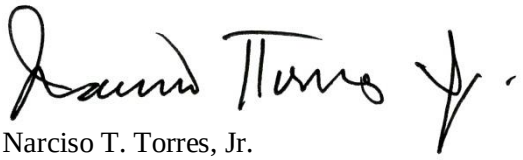
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 10 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cabuyao Logistics and Industrial Center, Inc. (a wholly owned subsidiary of RFM Corporation). The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621336, January 9, 2018, Makati City

April 3, 2018

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash in bank	**₱1,543,738**	₱362,957
Creditable withholding taxes	**5,426,624**	3,493,581
Total Current Assets	**6,970,362**	3,856,538
Noncurrent Asset		
Property, plant and equipment (Note 4):		
At cost	**260,259,722**	295,958,293
At appraised value	**247,633,000**	218,838,000
Total Noncurrent Assets	**507,892,722**	514,796,293
	₱514,863,084	₱518,652,831
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses	**₱410,081**	₱419,928
Provision (Note 7)	**6,000,000**	6,000,000
Current portion of advances from Parent Company (Note 5)	**330,018,245**	360,089,118
Total Current Liabilities	**336,428,326**	366,509,046
Noncurrent Liabilities		
Advances from Parent Company (Note 5)	**–**	5,649,401
Deferred income tax liability (Note 6)	**38,190,597**	29,552,097
Total Noncurrent Liabilities	**38,190,597**	35,201,498
	374,618,923	401,710,544
Equity		
Capital stock - ₱100 par value		
Authorized - 400,000 shares		
Issued - 100,000 shares	**10,000,000**	10,000,000
Additional paid-in capital	**147,470,541**	147,470,541
Accumulated excess of nominal amounts over the present values of advances from Parent Company (Note 5)	**325,420,366**	325,420,366
Revaluation increment on land, net of deferred income tax effect (Note 4)	**89,111,393**	68,954,893
Deficit (Note 9)	**(431,758,139)**	(434,903,513)
Total Equity	**140,244,161**	116,942,287
	₱514,863,084	₱518,652,831

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUE		
Rent income (Note 5)	**₱40,774,823**	₱39,992,779
EXPENSES		
Depreciation (Note 4)	**35,698,571**	35,698,571
Taxes and license fees	**1,371,038**	1,243,973
Insurance	**208,283**	302,156
Professional fees	**60,371**	55,712
	37,338,263	37,300,412
OTHER CHARGES		
Accretion expense	**189,400**	177,992
Others - net	**261**	4,476
	189,661	182,468
INCOME BEFORE INCOME TAX	**3,246,899**	2,509,899
PROVISION FOR INCOME TAX (Note 6)	**101,525**	85,884
TOTAL COMPREHENSIVE INCOME*	**₱3,145,374**	₱2,424,015

* There are no items representing other comprehensive income.

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital Stock	Additional Paid-in Capital	Accumulated Excess of Nominal Amounts over the Present Values of Advances from Parent Company	Revaluation Increment on Land, Net of Deferred Income Tax Effect (Note 4)	Deficit	Total
BALANCES AT DECEMBER 31, 2015	**₱10,000,000**	**₱147,470,541**	**₱325,420,366**	**₱68,954,893**	**(₱437,327,528)**	**₱114,518,272**
Total comprehensive loss for the year	–	–	–	–	2,424,015	2,424,015
BALANCES AT DECEMBER 31, 2016	**10,000,000**	**147,470,541**	**325,420,366**	**68,954,893**	**(434,903,513)**	**116,942,287**
Total comprehensive income for the year	–	–	–	–	3,145,374	3,145,374
Revaluation increment on land for the year	–	–	–	20,156,500	–	20,156,500
BALANCES AT DECEMBER 31, 2017	**₱10,000,000**	**₱147,470,541**	**₱325,420,366**	**₱89,111,393**	**(₱431,758,139)**	**₱140,244,161**

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(A Wholly Owned Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,246,899**	₱2,509,899
Adjustments for:		
Depreciation expense (Note 4)	**35,698,571**	35,698,571
Accretion expense	**189,400**	177,992
Operating income before working capital changes	**39,134,870**	38,386,462
Decrease (increase) in accrued liabilities	**(9,847)**	271,906
Net cash generated from operations	**39,125,023**	38,658,368
Income taxes paid, inclusive of creditable withholding taxes	**(2,034,568)**	(1,999,639)
Net cash from operating activities	**37,090,455**	36,658,729
CASH FLOWS FROM FINANCING ACTIVITY		
Net repayments of advances from Parent Company	**(35,909,674)**	(37,049,032)
NET INCREASE (DECREASE) IN CASH IN BANK	**1,180,781**	(390,303)
CASH IN BANK AT BEGINNING OF YEAR	**362,957**	753,260
CASH IN BANK AT END OF YEAR	**₱1,543,738**	₱362,957

See accompanying Notes to Financial Statements.

CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC.
(A Wholly Owned Subsidiary of RFM Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of the Financial Statements

Corporate Information

Cabuyao Logistics and Industrial Center, Inc. (the Company), a wholly owned subsidiary of RFM Corporation, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 10, 2000. The Company is a wholly owned subsidiary of RFM Corporation (RFM or the Parent Company).

The Company is currently leasing its property, plant and equipment to its Parent Company.

The Company's registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issuance of the Financial Statements

The financial statements were authorized for issuance in accordance with a resolution by the Company's Board of Directors (BOD) on April 3, 2018.

2. Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for the Company's land, which is stated at appraised value. The financial statements are presented in Philippine Peso (₱ or Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective:

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, *Financial Instruments*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The Company is currently assessing the impact of adopting PAS 40.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.



Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity
- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Current versus Noncurrent Classification
The Company presents assets and liabilities in statement of financial position based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets including deferred taxes are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities including deferred taxes as noncurrent.

Cash in Bank
Cash in bank earns annual interest at their respective deposit rates.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.



For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use of data is made which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transactions costs. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2017 and 2016, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.



Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2017 and 2016, the Company's other financial liabilities include accrued expenses and advances from Parent Company.

Impairment of Financial Assets
The Company assesses, at each reporting date, whether there is an objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company assesses whether objective evidence of impairment exists individually. The carrying amount of the impaired asset is reduced either directly or through use of an allowance account and the loss is recognized in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the Company's rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, and any directly attributable costs of bringing the assets to their working conditions and locations for their intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance costs, are normally recognized in profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standards of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Land is stated at appraised value based on a valuation performed by an independent firm of appraisers. The increase in the valuation of land is credited to 'Revaluation increment on land' account, net of deferred income tax effect, and presented under the equity section of the consolidated statement of financial position.

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to 'Revaluation increment on land' account, net of deferred income tax effect, in the statement of financial position. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings.

Depreciation or amortization is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Buildings and improvements	17 to 20
Machinery and equipment	15
Land improvements	15

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal.

Fully depreciated assets are in the accounts until they are no longer in use and no further depreciation is recognized in the consolidated statement of income.

Impairment of Property, Plant and Equipment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units (CGUs) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value-in-use.

The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Capital Stock

Common stock is classified as equity and recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' account in the statement of financial position. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

Additional Paid-in Capital

Additional paid-in capital represents the portion of the paid-in capital in excess of par value of issued shares of capital stock.



Accumulated Excess of Nominal Amounts over the Present Values of Advances from Parent Company

This represents the difference between the nominal amount and fair value of advances from Parent Company at initial recognition. Upon settlement of advances, the difference will be closed to 'Additional paid-in capital' account in the statement of financial position.

Deficit

Deficit represents the cumulative balance of periodic net income or loss, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding output VAT. The following specific recognition criteria must also be met before revenue is recognized:

Rent income

Rent income is recognized on a straight-line basis over the term of the lease.

Interest income

Interest income is recognized using the effective interest method.

Expense Recognition

Expenses are recognized when a decrease in future economic benefit related to a decrease in an asset or increase of a liability has arisen that can be measured reliably. Expenses are expensed as incurred.

Income Taxes

Current tax

Current tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credit from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) (excess MCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for (a), (c) and (d) scenarios above, and at the date of renewal or extension period for scenario (b).

Company as lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions and Contingencies

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRSs, requires management to make judgments, estimates and assumptions that affect the amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets of liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Financial risk management and policies (see Note 8)
- Capital management (see Note 9)

Judgment

Classification of land and building

The Company determines whether a property is classified as an investment property when it is not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. The Company continues to assess whether the current leasing business will be its final operating model, taking into consideration the current operating environment and the development in the area where the facilities are currently located. The Company continues to classify the land and building under the "Property, plant and equipment" account until such time that its primary business has been finalized.

Estimates and Assumptions

Recognition of deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Company has not recognized deferred income tax assets on deductible temporary differences and carryforward benefits of NOLCO and MCIT amounting to ₱44,799,251 and ₱69,584,062 as of December 31, 2017 and 2016, respectively, because management believes that it is more likely than not that these will not be realized in the future (Note 6).

Valuation of land under revaluation basis

The Company carries its land at fair value, with changes in fair value being recognized in the statement of comprehensive income. The revaluation is performed by professionally qualified appraiser. Revaluations are made every three to five years to ensure that the carrying amount do not differ materially from these which would be determined using fair values at the reporting date. Land is measured at revalued amounts with changes in fair value being recognized in OCI. Land were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

As of December 31, 2017 and 2016, the carrying rate of appraised land amounted to ₱247,633,000 and ₱218,838,000, respectively.

The key assumptions used to determine the fair value of the properties are provided in Note 4.

Impairment of property, plant and equipment
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data and from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flows (DCF) model. The cash flows are derived from the budget for the next ten years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The carrying value of buildings and improvements, and machinery and equipment are disclosed in Note 4.

4. Property, Plant and Equipment

2017

	Land	Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
Cost					
Balance at beginning of year	**₱–**	**₱7,917,749**	**₱181,873,237**	**₱394,767,437**	**₱584,558,423**
Accumulated Depreciation					
Balance at beginning of the year	**–**	**3,669,752**	**76,708,205**	**187,865,738**	**268,243,695**
Depreciation	**–**	**527,850**	**9,735,705**	**25,435,016**	**35,698,571**
Balance at end of the year	**–**	**4,197,602**	**86,443,910**	**213,300,754**	**303,942,266**
Accumulated Impairment Loss					
Balance at beginning and end of year	**₱–**	**₱–**	**₱–**	**₱20,356,435**	**₱20,356,435**
Net Book Values	**₱–**	**₱3,720,147**	**₱95,429,327**	**₱161,110,248**	**₱260,259,722**
At Appraised Value					
Balance at beginning of year	**₱218,838,000**	**₱–**	**₱–**	**₱–**	**₱218,838,000**
Revaluation	**28,795,000**	**–**	**–**	**–**	**28,795,000**
Balance at year end	**₱247,633,000**	**₱–**	**₱–**	**₱–**	**₱247,633,000**

2016

	Land	Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
Cost					
Balance at beginning and end of year	₱–	₱7,917,749	₱181,873,237	₱394,767,437	₱584,558,423
Accumulated Depreciation					
Balance at beginning of the year	–	3,141,902	66,972,500	162,430,722	232,545,124
Depreciation	–	527,850	9,735,705	25,435,016	35,698,571
Balance at end of the year	–	3,669,752	76,708,205	187,865,738	268,243,695
Accumulated Impairment Loss					
Balance at beginning and end of year	₱–	₱–	₱–	₱20,356,435	₱20,356,435
Net Book Values	₱–	₱4,247,997	₱105,165,032	₱186,545,264	₱295,958,293
At Appraised Value					
Balance at beginning and end of year	₱218,838,000	₱–	₱–	₱–	₱218,838,000

The Company's parcels of land were stated at their revalued amounts based on an appraisal made by a SEC-accredited independent appraisers dated December 29, 2017. The 57,589 square meters parcels of land in Cabuyao, Laguna, have an aggregate fair value of ₱247,633,000 and ₱218,838,000 as of December 31, 2017 and 2016, respectively.

The appraised value of the land was determined using the market data approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-2% to -5%), and location (-5%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of the land (Level 3 - significant unobservable inputs).

The cost of the land as of December 31, 2017 and 2016 amounted to ₱120,331,010. Accumulated revaluation increment on land, net of deferred tax, as of December 31, 2017 and 2016 amounted to ₱89,111,393 and ₱68,954,893, respectively.

Aggregate cost of fully depreciated buildings and improvements still in use amounted to ₱1,449,044 as of December 31, 2017 and 2016.

5. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and or among the reporting enterprises and their key management personnel, directors or its stockholders.

The Company has related party transactions with its Parent Company during the years ended December 31, 2017 and 2016 as follows:

Related Party	Nature of Transactions	Year	Amount Volume	Outstanding Balance	Terms and Conditions
Parent Company					
RFM Corporation	Advances	**2017**	**₱35,909,674**	**₱330,018,245**	Non-interest bearing;
		2016	2,943,746	365,927,919	Secured by property and equipment amounting to ₱300,000,000.
	Lease of facilities	**2017**	**40,774,823**	**–**	Renewed annually;
		2016	39,992,779	–	Unsecured, no impairment.

a. Advances from the Parent Company were discounted at date of grant using risk-free rates plus a risk premium and using an expected maturity of five years. The difference between the computed present value of the advances at grant date and the nominal amount is presented as 'Accumulated excess of nominal amounts over the present values of advances from Parent Company' in the equity section of the statements of financial position. The balance of the advances is net of the unamortized discount amounting to nil and ₱189,400 as of December 31, 2017 and 2016, respectively.

b. In 2016, the Company entered into lease agreement with the Parent Company's Sales and Distribution, Milk and Juice, Pasta and Private Label Divisions for the use of its operational service areas for a period of one year from January to December. Monthly rental payments range from ₱104,400 to ₱1,436,040 during 2016. In 2017, the Parent Company renewed its lease agreement covering the period January 1, 2017 to December 31, 2017 except for Sales and Distribution Division for which lease agreement was only extended up to March 2017. Monthly rental payments range from ₱119,745 to ₱1,725,719 during 2017.

   The rent payable by the Parent Company are offset against the 'advances from Parent Company' account under statements of financial position.

c. RFM provides accounting and administrative services at no cost to the Company. The Company has no employed personnel in 2017 and 2016.

6. Income Taxes

a. The Company did not recognize deferred tax assets on the carryforward benefits of NOLCO, MCIT and accumulated impairment loss on machinery and equipment as of December 31, 2017 and 2016 because management believes that it is more likely than not that these will not be realized in the future prior to their expiration.

	2017	2016
Carry forward benefits of NOLCO	**₱24,255,407**	₱49,141,743
Accumulated impairment loss on machinery and equipment (Note 4)	**20,356,435**	20,356,435
MCIT	**187,409**	85,884

b. Deferred income tax liability represents the tax effect of revaluation increment on land amounting ₱38,190,597 and ₱29,552,097 as of December 31, 2017 and 2016.

c. The details of NOLCO and MCIT as of December 31, 2017 follow:

Year incurred	Available Until	NOLCO	MCIT
2015	2018	₱24,255,407	₱–
2016	2019	–	85,884
2017	2020	–	101,525
		₱24,255,407	₱187,409

The following are the movements of NOLCO and MCIT:

	NOLCO		MCIT	
	2017	2016	**2017**	2016
Beginning	**₱49,141,743**	₱82,025,915	**₱85,884**	₱–
Additions	**–**	–	**101,525**	85,884
Applications	**(3,436,297)**	(2,687,892)	**–**	**–**
Expirations	**(21,450,039)**	(30,196,280)	**–**	**–**
Ending	**₱24,255,407**	₱49,141,743	**₱187,409**	₱85,884

d. A reconciliation of the benefit from income tax computed at the statutory income tax rate based on net income to the provision for income tax follows:

	2017	2016
Provision for income tax at statutory income tax rate	**₱974,069**	₱752,970
Additions to (reductions in) income tax resulting from:		
Deductible temporary difference and carry forward benefits of NOLCO for which no deferred income tax assets were recognized	**(1,030,889)**	(806,368)
Accretion expense	**56,820**	53,398
Excess of MCIT over RCIT in the current year	**101,525**	85,884
Provision for income tax	**₱101,525**	₱85,884

e. Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

7. Provisions and Contingencies

The Company is a party to certain legal and regulatory matters that require the recognition of provision for related probable losses against the Company. Management and its legal counsel on an annual basis reassess its estimates to consider new relevant information. As of December 31, 2017 and 2016, provision for probable losses recorded under "Provision" account on the current liabilities section of the statement of financial position amounted to ₱6,000,000.

The disclosures of additional details beyond the present disclosures may seriously prejudice the Company's position and negotiation strategies with respect to these matters. Thus as allowed under PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*, only a general description is provided.

8. Financial Instruments and Financial Risk Management Objectives and Policies

The Company's financial and risk management strategies are handled on a group wide basis under monitoring by the Parent Company. The Company's Board of Directors review and agree on policies for managing financial risks.

As of December 31, 2017 and 2016, the Company is exposed to liquidity risk. It has no significant exposure to credit risk because its financial asset consist of cash in bank only.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management is tasked to minimize liquidity risk though prudent financial planning and execution to meet operating requirements through cash advances from the Parent Company.

The maturity profile of the Company's financial liabilities based on contractual undiscounted payments follows:

2017

	Less than one year	More than one year	Total
Accrued expenses*	**₱23,000**	**₱–**	**₱23,000**
Advances from Parent Company	**330,018,245**	**–**	**330,018,245**
Total	**₱330,041,245**	**₱–**	**₱330,041,245**

**Excluding government related payables amounting to ₱387,081.*

2016

	Less than one year	More than one year	Total
Accrued expenses*	₱20,000	₱–	₱20,000
Advances from Parent Company	360,089,119	5,649,400	365,738,519
Total	₱360,109,119	₱5,649,400	₱365,758,519

**Excluding government related payables amounting to ₱399,928.*

The Company's outstanding financial liabilities may be settled using cash in bank. Future income from lease agreements with the Parent Company is applied against advances from the Parent Company.

9. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to safeguard its ability to continue as going concern.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

The Company considers the following as capital:

	2017	2016
Capital stock	**₱10,000,000**	₱10,000,000
Additional paid-in capital	**147,470,541**	147,470,541
Accumulated excess of nominal amounts over present values of advances from Parent Company	**325,420,366**	325,420,366
Deficit	**(431,758,139)**	(434,903,513)
	₱51,132,768	₱47,987,394

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions.

10. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company reported the following types of taxes for the year ended December 31, 2017.

Output VAT

The Company reported lease income of ₱40,774,823 and output VAT of ₱4,892,978.

Taxes and License Fees

Real property taxes	₱1,025,760
Business taxes	304,238
Documentary stamp tax	23,712
Others	17,328
Total	₱1,371,038

Tax Assessments and Cases

The Company has no deficiency tax assessments, whether protested or not. The Company has not been involved in any cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

ANNEX "C"

- **Audited Financial Statements of Invest Asia Corporation (IAC) and Independent Auditor's Report for the Years 2015, 2016 and 2017**

Invest Asia Corporation
(A Subsidiary of RFM Corporation)

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report



A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Invest Asia Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Invest Asia Corporation (a subsidiary of RFM Corporation), which comprise the balance sheets as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Invest Asia Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 13 is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Invest Asia Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321614, January 4, 2016, Makati City

April 11, 2016

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

BALANCE SHEETS

	December 31	
	2015	**2014**
ASSETS		
Current Assets		
Cash and cash equivalents	**₱18,204,608**	₱3,063,175
Receivables (Note 4)	**21,768,714**	22,093,049
Other current assets (Note 5)	**20,926,508**	23,208,750
Total Current Assets	**60,899,830**	48,364,974
Noncurrent Assets		
Investment properties (Note 6)	**236,056,881**	241,511,514
Other noncurrent assets	**185,187**	**–**
Total Noncurrent Assets	**236,242,068**	241,511,514
TOTAL ASSETS	**₱297,141,898**	₱289,876,488
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	**₱1,358,176**	₱1,310,747
Due to a related party (Note 8)	**21,469,199**	21,469,199
Total Current Liabilities	**22,827,375**	22,779,946
Noncurrent Liabilities		
Security deposits (Note 10)	**1,903,214**	1,906,557
Deferred income tax liability (Note 9)	**202,859**	55,160
Total Noncurrent Liabilities	**2,106,073**	1,961,717
Total Liabilities	**24,933,448**	24,741,663
Equity		
Capital stock - ₱1 par value		
Authorized - 500,000,000 shares		
Issued and outstanding - 324,645,040 shares	**324,645,040**	324,645,040
Additional paid-in capital	**317,992,264**	317,992,264
Deficit	**(370,428,854)**	(377,502,479)
Total Equity	**272,208,450**	265,134,825
TOTAL LIABILITIES AND EQUITY	**₱297,141,898**	₱289,876,488

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
REVENUE		
Lease income (Notes 8 and 10)	**₱17,067,954**	₱15,260,783
Service income (Note 8)	**14,905,455**	15,474,168
	31,973,409	30,734,951
COSTS AND EXPENSES		
Utilities	**7,242,837**	8,057,573
Outside services	**5,590,373**	7,516,638
Depreciation (Note 6)	**5,454,633**	7,388,544
Personnel cost	**1,928,370**	863,037
Provision for doubtful accounts (Note 4)	**1,611,098**	–
Taxes and license fees	**1,544,580**	4,134,966
Repairs and maintenance	**585,414**	1,277,839
Insurance	**217,421**	203,582
Fuel and oil	**107,237**	261,869
Entertainment, amusement and representation	**102,000**	340,436
Supplies	**17,131**	43,675
Others	**17,895**	308,473
	24,418,989	30,396,632
OTHER INCOME (CHARGES)		
Interest income	**20,620**	24,439
Others - net	**(119,661)**	(5,545)
	(99,041)	18,894
INCOME BEFORE INCOME TAX	**7,455,379**	357,213
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 9)		
Current	**234,055**	116,926
Deferred	**147,699**	(77,105)
	381,754	39,821
NET INCOME	**7,073,625**	317,392
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱7,073,625**	₱317,392

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Capital Stock	Additional Paid-in Capital	Deficit	Total
BALANCES AT DECEMBER 31, 2013	**₱324,645,040**	**₱317,992,264**	**(₱377,819,871)**	**₱264,817,433**
Total comprehensive income	–	–	317,392	317,392
BALANCES AT DECEMBER 31, 2014	**324,645,040**	**317,992,264**	**(377,502,479)**	**265,134,825**
Total comprehensive income for the year	–	–	7,073,625	7,073,625
BALANCES AT DECEMBER 31, 2015	**₱324,645,040**	**₱317,992,264**	**(370,428,854)**	**₱272,208,450**

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Income before income tax	**₱7,221,324**	₱357,213
Adjustments for:		
Depreciation (Note 6)	**5,454,633**	7,388,544
Interest income	**(20,620)**	(24,439)
Operating income before working capital changes	**12,655,337**	7,721,318
Decrease (increase) in:		
Receivables	**324,335**	(14,253,829)
Other current assets	**2,282,242**	2,680,008
Increase (decrease) in:		
Accounts payable and accrued liabilities	**47,429**	(30,668)
Security deposits	**(3,343)**	(162,671)
Cash generated from (used in) operations	**15,306,000**	(4,045,842)
Income taxes paid, including creditable withholding taxes	**–**	(670,116)
Interest received	**20,620**	24,439
Net cash from (used in) operating activities	**15,326,620**	(4,691,519)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to investment properties (Note 6)	**–**	(379,464)
Due to related party	**–**	(2,523,430)
Increase in other noncurrent assets	**(185,187)**	–
Cash used in investing activities	**(185,187)**	(2,902,894)
NET INCREASE (DECREASE) IN CASH	**15,141,433**	(7,594,413)
CASH AT BEGINNING OF YEAR	**3,063,175**	10,657,588
CASH AT END OF YEAR	**₱18,204,608**	₱3,063,175

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Invest Asia Corporation (the Company), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 2002. The Company's primary purpose is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness and other securities or obligations of any corporation or corporations, association or associations, and domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefore in money or by exchanging therefore stocks, bonds, or other evidences of indebtedness or securities of this any corporation, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of any interest, dividends and income arising from such property; and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The Company is a 95.99%-owned subsidiary of RFM Corporation (the Parent Company) whose common shares are listed and traded at the Philippine Stock Exchange.

The Company's registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issue of the Financial Statements

The financial statements were authorized for issue by the Company's Board of Directors (BOD) on April 11, 2016.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Exemption from adoption of PFRS for Small and Medium-sized entities (SMEs)

The Company meets the definition of an SME under the criteria set out by the Philippine SEC when the Philippine SEC adopted PFRS for Small and Medium-sized Entities (PFRS for SMEs) as part of its rules and regulations. However, as a subsidiary of an entity reporting under full PFRSs, the Company availed of the exemption provided by the Philippine SEC from the mandatory adoption of PFRS for SMEs and prepared its financial statements in compliance with full PFRSs.



Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2015. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to PFRSs* (2010 to 2012 cycle)
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  - PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures - Key Management Personnel*
- *Annual Improvements to PFRSs* (2011 to 2013 cycle)
  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Ventures*
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*
  - PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements unless otherwise indicated. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning January 1, 2016

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
- Amendments to PAS 16 and PAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture - Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- *Annual Improvements to PFRSs* (2012-2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue*



- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Effective beginning January 1, 2017

- Amendments to PAS 7, *Disclosure Initiative*
- Amendments to PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version)
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Earlier application of final version of PFRS 9 is permitted. Retrospective application is required, but comparative information is not compulsory.

Effective beginning January 1, 2019

- PFRS 16, *Leases*
  The new standard introduces major changes in lease accounting. Under PFRS 16, lessees will no longer classify their leases as either operating or financing leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  PFRS 16 will replace PAS 17 and supersede the related interpretations. Earlier application is not permitted until the Financial Standards Reporting Council (FRSC) has adopted the new revenue recognition standard.

  The Company is currently studying the impact of future adoption of PFRS 16.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the



research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Issued by the IASB but not yet adopted by the FRSC

- International Financial Reporting Standards (IFRS 15), *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Cash
Cash includes cash on hand and in banks.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

As of December 31, 2015, the Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transactions costs. The Company's financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each balance sheet date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2015 and 2014, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are

subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current except for maturities greater than 12 months after the balance sheet date. These are classified as noncurrent liabilities.

As of December 31, 2015 and 2014, the Company's other financial liabilities include accounts payable and accrued liabilities, and amounts due to related parties.

Impairment of Financial Assets
The Company assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred)). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced either directly or through use of an allowance account and the loss is recognized in the statement of income.

If, in a subsequent year, the amount of the estimated impairment loss increase or decreases because of an event occurring after the impairment was recognized, the previously recognized



impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Investment Properties

Investment properties consist of properties that are not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an



investment property. Subsequent to initial recognition, investment properties, except for land, are carried at cost less accumulated depreciation and any impairment losses. Land is carried at cost less any impairment in value.

Depreciation of investment properties commences once these are available for use and is computed using the straight-line method over the following useful lives of the assets:

	Number of Years
Buildings and improvements	15 to 21
Building equipment	5 to 20

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the investment property is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount off the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of Investment Properties

The carrying values of investments properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units (CGUs) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.



Input Tax and Deferred Input Tax
Input tax and deferred input tax represent substantially the value-added tax (VAT) due or paid on the purchase of capital goods (i.e., RFM land and building) subjected to VAT exceeding ₱1,000,000. The input VAT can be claimed against any future liability to the Bureau of Internal Revenue (BIR) for output VAT received from sale of goods and services subjected to VAT in the following manner:

a. If the estimated useful life of a capital good is five years or more, the input tax shall be spread evenly over a period of 60 months and the claim for input tax credit will commence in the calendar month when the capital good is acquired.
b. If the estimated useful life of a capital good is less than five years, the input tax shall be spread evenly on a monthly basis by dividing the input tax by the actual number of months comprising the estimated useful life of the capital good.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Input VAT" account under the "Other current assets" account or "Accounts payable and accrued liabilities" account in the balance sheet.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares.

Additional Paid-in Capital
Additional Paid-in Capital represents the portion of the paid-in capital in excess over the par value of issued shares of capital stock.

Deficit
Deficit represent the cumulative balance of periodic net income or loss, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the present value of the consideration received or receivable excluding output VAT. The following specific recognition criteria must also be met before revenue is recognized:

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Interest income
Interest income is recognized as the interest accrues using the effective interest rate method.

Costs and Expenses
Costs and expenses are recognized when a decrease in future economic benefit related to a decrease in an asset or increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the year they are incurred.

Leases
Leases where the Company does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.



Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be utilized.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Events after the balance sheet date that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements.
Events after the balance sheet date that are not adjusting events are disclosed in the notes to financial statements when material.

3. **Management's Use of Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the financial statements in compliance with PFRS requires the Company to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and

assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the financial statements when they become reasonably determinable.

Accounting estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which has the most significant effect on the amounts recognized in the financial statements.

Operating lease - Company as lessor

The Company has lease agreements covering office spaces in its buildings. Management has determined that the Company retained the risks and rewards over the asset and accounted for the lease contracts as operating leases (see Note 10).

Classification of property as investment property

The Company determines whether a property is classified as an investment property when it is not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. The Company classifies its buildings and improvements, and building equipment as investment properties for these are held primarily to earn rental income. The land which is an integral part of the property for lease is also classified as investment property.

The carrying values of the Company's investment properties amounted to ₱236,056,881 and ₱241,511,514 as of December 31, 2015 and 2014, respectively (see Note 6).

Impairment of investment properties

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the investment properties may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount. Management assessed that there are no indications of impairment as of December 31, 2015 and 2014.

Recognition of deferred income tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

No deferred income tax assets were recognized in 2015 and 2014 because management believes that it is more likely that these will not be realized in the future (see Note 9).

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of receivables
Recoverability of specific receivables are evaluated based on the best available facts and circumstances, the length of the Company's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated to be uncollectible. The Company used specific impairment on its receivables. The Company did not assess for collective impairment due to few counterparties which can be specifically identified.

As of December 31, 2015 and 2014, the carrying values of receivables amounted to ₱21,768,714 and ₱ 22,093,049 respectively. Allowance for doubtful accounts amounted to ₱382,780,292 and ₱381,399,654 as of December 31, 2015 and 2014 respectively (see Note 4).

Estimation of useful lives of investment properties
The useful lives of buildings and improvements, and building and office equipment classified as investment properties are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry bench mark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of investment properties would increase the Company's recorded expenses and decrease noncurrent assets.

The estimated useful lives of the Company's investment properties are discussed in Note 2 to the financial statements. There were no changes in the estimated useful lives of investment properties for both years.

The carrying values of the Company's investment properties amounted to ₱236,056,881 and ₱241,511,514 as of December 31, 2015 and 2014, respectively (see Note 6).

Provisions
The estimate of the probable costs for the resolution of possible third party claims has been developed in consultation with outside consultant/legal counsel handling the Company's defense on these matters and is based upon an analysis of potential results. When management and its outside consultant/legal counsel believe that the eventual liabilities under these and any other claims, if any, will not have a material effect on the Company's financial statements, no provision for probable losses is recognized in the Company's financial statements. The amount of provision is being reassessed at least on an annual basis to consider new relevant information. No provision for probable losses was recognized in the Company's financial statements for the years ended December 31, 2015 and 2014.



4. **Receivables**

	2015	2014
Trade:		
Related parties (Note 8)	**₱25,735,681**	₱25,508,957
Third parties	**4,890,399**	3,778,163
Due from related parties (Note 8)	**373,900,423**	373,900,423
Others	**22,503**	305,160
	404,549,006	403,492,703
Less allowance for doubtful accounts (Note 8)	**382,780,292**	381,399,654
	₱21,768,714	₱22,093,049

Trade receivables are due within 30 to 90 days and are non-interest-bearing. Allowance for doubtful accounts are based on specific impairment assessment by the company.

Movements in the allowance for doubtful accounts follow:

	2015	2014
Beginning balance	**₱381,399,654**	₱381,399,654
Provision for the year (Note 8)	**1,611,098**	
Write off	**(230,460)**	**–**
Ending balance	**₱382,780,292**	₱381,399,654

Breakdown of the allowance for doubtful accounts as of December 31 follow:

	2015	2014
Trade receivables		
Related parties (Note 8)	**₱7,458,882**	₱6,577,051
Third parties	**1,419,105**	689,838
Due from related parties (Note 8)	**373,900,423**	373,900,423
Others	**1,882**	232,342
	₱382,780,292	₱381,399,654

5. **Other Current Assets**

	2015	2014
Input VAT	**₱16,224,353**	₱18,914,238
Creditable withholding tax	**4,702,155**	4,294,512
	₱20,926,508	₱23,208,750

6. **Investment Properties**

December 31, 2015:

	Land	Buildings and Improvements	Building Equipment	Construction in Progress	Total
Cost					
Beginning of year	**₱170,590,000**	**₱99,623,725**	**₱17,310,089**	**₱4,725,000**	**₱292,248,814**
Reclassifications	**–**	**4,725,000**	**–**	**(4,725,000)**	**–**
End of year	**170,590,000**	**104,348,725**	**17,310,089**	**–**	**292,248,814**

(Forward)

	Land	Buildings and Improvements	Building Equipment	Construction in Progress	Total
Accumulated Depreciation					
Beginning of year	**–**	**37,152,630**	**13,584,670**	**–**	**50,737,300**
Depreciation for the year	**–**	**4,585,343**	**869,290**	**–**	**5,454,633**
End of year	**–**	**41,737,973**	**14,453,960**	**–**	**56,191,933**
Net Book Values	**₱170,590,000**	**₱62,610,752**	**₱2,856,129**	**₱–**	**₱236,056,881**

December 31, 2014:

	Land	Buildings and Improvements	Building Equipment	Construction in Progress	Total
Cost					
Beginning of year	₱170,590,000	₱99,623,725	₱16,930,625	₱–	₱287,144,350
Additions (Note 12)	–	–	379,464	4,725,000	5,104,464
End of year	170,590,000	99,623,725	17,310,089	4,725,000	292,248,814
Accumulated Depreciation					
Beginning of year	–	32,296,856	11,051,900	–	43,348,756
Depreciation for the year	–	4,855,774	2,532,770	–	7,388,544
End of year	–	37,152,630	13,584,670	–	50,737,300
Net Book Values	₱170,590,000	₱62,471,095	₱3,725,419	₱4,725,000	₱241,511,514

The Company has no restrictions on the realizability of its investment properties and no contractual obligations either to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The aggregate fair value of the Company's investment properties amounted to ₱302,188,000 which was based on the valuation performed by an independent firm of appraisers on January 2, 2014 using the market data approach.

7. Accounts Payable and Accrued Liabilities

	2015	2014
Accrued expenses	**₱1,311,246**	₱1,291,192
Other liabilities	**46,930**	19,555
	₱1,358,176	₱1,310,747

Accounts payable are noninterest bearing and are normally based on 30 days term.

8. Related Party Transactions

The Company has the following significant transactions and outstanding balances with related parties:

a. The Company rents its office facilities to related parties. The related rental income from the related parties and the outstanding balance as of year-end, are as follows:

		Transactions for the Years ended December 31		**Outstanding Balances as of December 31 (Note 4)**	
Related Parties	**Terms and Conditions**	**2015**	2014	**2015**	2014
Entities under common major shareholder group					
Unilever - RFM	Unsecured and will be settled in cash	**₱–**	₱–	**₱762,315**	₱762,315

(Forward)

Related Parties	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balances as of December 31 (Note 4)	
		2015	2014	**2015**	2014
Swift Foods, Inc. (Swift)	-do-	**154,440**	520	**6,591,332**	6,592,091
Sister companies					
Rizal Lighterage Corporation	-do-	**–**	–	**–**	539
Interbake Commissary Corporation	-do-	**–**	45,070	**–**	85,008
Conglomerate Securities and Financing Corporation	-do-	**102,465**	**–**	**10,988**	**–**
RFM Insurance Brokers, Inc.	-do-	**344,655**	**–**	**35,129**	**–**
Other affiliates					
RFM Foundation	-do-	**226,180**	103,035	**389,243**	163,063
Joey Pepperoni Pizzeria	-do-	**502,740**	705,429	**4,519,498**	4,357,836
Philippine Center of Entrepreneur	-do-	**33,566**	13,559	**186,233**	152,667
		₱1,364,046	₱867,613	**₱12,494,738**	₱12,113,519

The Company's allowance for doubtful accounts on receivables from Swift amounted to ₱6,577,051 for both December 31, 2015 and 2014 (See Note 4).

b. The Company charges service fee for a monthly rate of ₱400 per square meter to RFM Divisions for the payment of utilities, janitorial services, security services and other expenses incurred in relation with keeping the RFM Building and premises safe and convenient for business.

Related Parties	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balances as of December 31 (Note 4)	
		2015	2014	**2015**	2014
Parent Company					
RFM Corporation	Unsecured and will be settled in cash	**₱9,715,966**	₱8,965,115	**₱14,307,952**	₱13,395,438

c. Receivables from RFM shareholders which amounted to ₱373,900,423 as of December 31, 2015 and 2014 were fully provided with allowance for doubtful accounts (See Note 4).

d. The Company was granted advances by Philtown in prior years which are non-interest-bearing and payable on demand. Outstanding balance is presented as "Due to related party" in the balance sheet.

Related Party	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balances as of December 31	
		2015	2014	**2015**	2014
Entity under common major shareholder group					
Philtown	Unsecured and will be settled in cash	**₱–**	₱–	**₱21,469,199**	₱21,469,199

9. Income Taxes

a. The provision for current income tax in 2015 and 2014 represents minimum corporate income tax.

b. The Company did not recognize deferred income tax assets on the following deductible temporary difference, MCIT and carryforward benefits of NOLCO as of December 31, 2015 and 2014 because management believes that it is more likely than not that these will not be realized in the future or prior to their expiration:

	2015	2014
Deductible temporary difference on allowance for doubtful accounts	**₱382,780,292**	₱381,399,654
Carryforward benefits of NOLCO	**–**	7,891,572
MCIT	**451,439**	217,384

c. The deferred income tax liability as of December 31, 2015 and 2014 amounting to ₱202,859 and ₱55,160 respectively, pertains to taxable temporary difference on accrued rental income.

d. For the NOLCO incurred in 2012, ₱7,891,572 was applied in 2015. The MCIT incurred in 2015 of ₱234,055, 2014 of ₱116,926 and in 2013 of ₱100,458 will expire in 2018, 2017 and 2016, respectively.

e. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income before income tax to the provision for income tax as shown in profit or loss follows:

	2015	2014
Provision for income tax computed at the statutory income tax rate	**₱2,236,614**	₱107,164
Additions to (reductions in) income tax resulting from:		
Application of NOLCO from prior years without deferred income tax asset set-up	**(2,367,472)**	(232,336)
Deductible temporary differences and NOLCO for which no deferred income tax assets were recognized in the current year	**483,329**	–
MCIT without deferred income tax asset set-up	**234,055**	116,926
Excess MCIT over RCIT in the current year	**(198,586)**	–
Interest income subjected to final tax	**(6,186)**	(7,332)
Nondeductible expense	**–**	55,399
Provision for income tax	**₱381,754**	₱39,821

10. **Leases**

The Company leases its buildings to various related parties and third parties for a period of two to 10 years subject for renewal unless terminated by the Company. The leases generally provide for either (a) a fixed monthly rent, or (b) with an escalation rate of 5% or 10% per annum. Rent income earned from operations relating to the lease agreements amounted to ₱17,067,954 and ₱15,260,783 for the years ended December 31, 2015 and 2014, respectively. Security deposits on these lease agreements which are applied against amounts due from lessee at the end of lease term amounted to ₱1,903,214 and ₱1,906,557 as of December 31, 2015 and 2014.

Future minimum rental income under the operating leases as of December 31, 2015 and 2014 are as follows:

	2015	2014
Within one year	**₱8,470,372**	₱13,133,751
After one year but not more than five years	**5,580,639**	5,596,497
	₱14,051,011	₱18,730,248

11. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's risk management is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's policies for managing the aforementioned risks are summarized below:

Credit risk

Credit risk is the risk that the Company will incur a loss because its counterparties failed to settle their obligations. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Company deals only with reputable counterparties, financial institutions and tenants. Receivable balances are monitored on an ongoing basis to minimize the Company's exposure to bad debts. Creditworthiness of the tenants and related parties is reassessed at least once or twice a year to determine sufficiency of any probable losses to be provided. The Company's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk.

The table below shows the Company's credit risk with gross maximum exposure equal to the carrying amount of the financial assets as of December 31, 2015 and 2014, without taking account of any collateral and other credit enhancements:

	2015	2014
Cash in banks and cash equivalents	**₱18,189,608**	₱3,048,175
Receivables:		
Third parties	**4,890,399**	3,088,325
Related parties	**25,735,680**	18,931,906
Total credit risk exposure	**₱48,815,687**	₱25,068,406

The credit quality of financial assets is managed by the Company using internal credit ratings. Cash in banks are classified as "Excellent" accounts since these are deposited and invested with reputable banks and can be withdrawn anytime.

Receivables that are neither past due nor impaired are classified as "Excellent" accounts if these are expected to be collected or liquidated on or before their due dates, or upon call by the Company if there are no pre-determined defined due dates. All other financial assets that are neither past due nor impaired are classified as "Good" accounts. The Company classifies its trade receivables as "Excellent", except for amounts due from related parties which are impaired amounting to ₱373,900,423 as of December 31, 2015 and 2014, and trade receivables amounting to ₱8,879,869 and ₱7,499,231 as of December 31, 2015 and 2014 respectively (see Notes 4 and 8).

Liquidity risk
The Company addresses liquidity concerns through cash advances from the Parent Company.

The following tables show the maturity profile of the Company's other financial liabilities as well as the undiscounted cash flows from loans and receivables used for liquidity purposes.

December 31, 2015:

	Less than 3 months	3 to 12 months	More than one year	Total
Accrued liabilities	**₱1,358,281**	**₱–**	**₱–**	**₱1,358,281**
Due to a related party	**21,469,199**	**–**	**–**	**21,469,199**
	₱22,827,480	**₱–**	**₱–**	**₱22,827,480**
Cash on hand	**₱15,000**	**₱–**	**₱–**	**₱15,000**
Cash in bank and cash equivalents	**18,189,608**			**18,189,608**
Receivables:				
Third parties	**4,890,399**	**–**	**–**	**4,890,399**
Related parties	**25,735,680**	**–**	**–**	**25,735,680**
	₱48,830,687	**₱–**	**₱–**	**₱48,830,687**

December 31, 2014:

	Less than 3 months	3 to 12 months	More than one year	Total
Accrued liabilities	₱1,291,192	₱–	₱–	₱1,291,192
Due to a related party	21,469,199	–	–	21,469,199
	₱22,760,391	₱–	₱–	₱22,760,391
Cash	₱3,063,175	₱–	₱–	₱3,063,175
Receivables:				
Third parties	3,778,163	–	–	3,778,163
Related parties	25,508,957	–	–	25,508,957
	₱32,350,295	₱–	₱–	₱32,350,295

Categories and Class of Financial Instruments

The fair values of cash in banks, receivable from third parties and related parties, accrued liabilities and due to a related party approximate their carrying values due to the relatively short-term nature of these financial instruments.

As of December 31, 2015 and 2014, the Company has no financial instruments carried at fair value. Thus, disclosure on source of inputs using a three-level fair value hierarchy is not necessary.

12. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management policy is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern and to ensure that the Company complies with externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2015 and 2014.

As of December 31, 2015 and 2014, the Company considers the following as capital:

	2015	2014
Capital stock	**₱324,645,040**	₱324,645,040
Additional paid in capital	**317,992,264**	317,992,264
Deficit	**(370,428,854)**	(377,502,479)
	₱272,208,450	₱265,134,825

13. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

The Company reported and/or paid the following types of taxes in 2015:

Output VAT
The net rental revenue for the year ended December 31, 2015 and its corresponding output VAT as of December 31, 2015 which was declared in the Company's VAT returns amounted to ₱31,297,212 and ₱3,755,665, respectively.

Input VAT
Details of the Company's input VAT as of December 31, 2015 follow:

Balance at January 1, 2015	₱18,914,238
Current year's domestic purchases/payments for domestic purchase of services	1,065,780
	19,980,018
Application of output VAT	(3,755,665)
Balance at December 31, 2015	₱16,224,353

Taxes and License Fees
The component of the Company's taxes and license fees in 2015 follows:

Real property taxes	₱905,074
Business taxes	491,699
Community tax certificate	10,500
Others	4,601
Total	₱1,411,874

Withholding Taxes
The amount of expanded withholding taxes and fringe benefit tax paid amounted to ₱655,126 and ₱132,706 for the year ended December 31, 2015.

Withholding Taxes – Compensation	₱477,426
Withholding Taxes – EWT	177,700
Fringe Benefit Tax	132,706
Total	₱787,832

Invest Asia Corporation
(A Subsidiary of RFM Corporation)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditors' Report



A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Invest Asia Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Invest Asia Corporation (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 14 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Invest Asia Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5908673, January 3, 2017, Makati City

April 4, 2017

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱37,147,005**	₱18,204,608
Receivables (Note 5)	**15,152,032**	21,768,714
Other current assets (Note 6)	**17,035,953**	20,926,508
Total Current Assets	**69,334,990**	60,899,830
Noncurrent Assets		
Investment properties (Note 7)	**233,831,156**	236,056,881
Other noncurrent assets	**185,187**	185,187
Total Noncurrent Assets	**234,016,343**	236,242,068
TOTAL ASSETS	**₱303,351,333**	₱297,141,898
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**₱1,098,665**	₱1,358,176
Due to a related party (Note 9)	**21,469,199**	21,469,199
Total Current Liabilities	**22,567,864**	22,827,375
Noncurrent Liabilities		
Security deposits (Note 11)	**1,691,593**	1,903,214
Deferred income tax liability (Note 10)	**157,034**	202,859
Total Noncurrent Liabilities	**1,848,627**	2,106,073
Total Liabilities	**24,416,491**	24,933,448
Equity		
Capital stock - ₱1 par value		
Authorized - 500,000,000 shares		
Issued and outstanding - 324,645,040 shares	**324,645,040**	324,645,040
Additional paid-in capital	**317,992,264**	317,992,264
Deficit	**(363,702,462)**	(370,428,854)
Total Equity	**278,934,842**	272,208,450
TOTAL LIABILITIES AND EQUITY	**₱303,351,333**	₱297,141,898

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUE		
Lease income (Notes 9 and 11)	**₱17,512,559**	₱17,067,954
Service income (Note 9)	**16,346,626**	14,905,455
	33,859,185	31,973,409
COSTS AND EXPENSES		
Utilities	**6,795,063**	7,242,837
Outside services	**6,653,189**	5,590,373
Depreciation (Note 7)	**5,619,798**	5,454,633
Repairs and maintenance	**3,528,576**	585,414
Taxes and license fees	**1,581,863**	1,544,580
Personnel cost	**715,019**	1,928,370
Insurance	**143,680**	217,421
Fuel and oil	**91,274**	107,237
Entertainment, amusement and representation	**80,750**	102,000
Supplies	**28,132**	17,131
Provision for doubtful accounts (Note 5)	**–**	1,611,098
Others	**15,899**	17,895
	25,253,243	24,418,989
OTHER INCOME (CHARGES)		
Interest income (Note 4)	**358,715**	20,620
Others - net	**(154,174)**	(119,661)
	204,541	(99,041)
INCOME BEFORE INCOME TAX	**8,810,483**	7,455,379
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 10)		
Current	**2,129,917**	234,055
Deferred	**(45,826)**	147,699
	2,084,091	381,754
NET INCOME	**6,726,392**	7,073,625
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱6,726,392**	₱7,073,625

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock	Additional Paid-in Capital	Deficit	Total
BALANCES AT DECEMBER 31, 2014	**₱324,645,040**	**₱317,992,264**	**(₱377,502,479)**	**₱265,134,825**
Total comprehensive income for the year	–	–	7,073,625	7,073,625
BALANCES AT DECEMBER 31, 2015	**324,645,040**	**317,992,264**	**(370,428,854)**	**272,208,450**
Total comprehensive income for the year	–	–	6,726,392	6,726,392
BALANCES AT DECEMBER 31, 2016	**₱324,645,040**	**₱317,992,264**	**(₱363,702,462)**	**₱278,934,842**

See accompanying Notes to Financial Statements.



INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱8,810,483**	₱7,455,379
Adjustments for:		
Depreciation (Note 7)	**5,619,798**	5,454,633
Interest income (Note 4)	**(358,715)**	(20,620)
Provision (Note 5)	**–**	1,611,098
Operating income before working capital changes	**14,071,566**	14,500,490
Decrease (increase) in:		
Receivables	**6,616,682**	(1,286,763)
Other current assets	**3,890,555**	2,282,242
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(259,510)**	47,429
Security deposits	**(211,621)**	(3,343)
Cash generated from operations	**24,107,672**	15,540,055
Income taxes paid, including creditable withholding taxes	**(2,129,917)**	(234,055)
Interest received	**358,715**	20,620
Net cash from operating activities	**22,336,470**	15,326,620
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to investment properties (Note 7)	**(3,394,073)**	–
Increase in other noncurrent assets	**–**	(185,187)
Cash used in investing activities	**(3,394,073)**	(185,187)
NET INCREASE IN CASH	**18,942,397**	15,141,433
CASH AT BEGINNING OF YEAR (Note 4**)**	**18,204,608**	3,063,175
CASH AT END OF YEAR (Note 4**)**	**₱37,147,005**	₱18,204,608

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issue of the Financial Statements

Corporate Information

Invest Asia Corporation (the Company), a 95.99%-owned subsidiary of RFM Corporation (RFM), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 2002. The Company's primary purpose is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness and other securities or obligations of any corporation or corporations, association or associations, and domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefore in money or by exchanging therefore stocks, bonds, or other evidences of indebtedness or securities of this any corporation, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of any interest, dividends and income arising from such property; and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The Company's registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issue of the Financial Statements

The financial statements were authorized for issue by the Company's Board of Directors (BOD) on April 4, 2017.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Exemption from adoption of PFRS for Small and Medium-sized entities (SMEs)

The Company meets the definition of an SME under the criteria set out by the Philippine SEC when the Philippine SEC adopted PFRS for Small and Medium-sized Entities (PFRS for SMEs) as part of its rules and regulations. However, as a subsidiary of an entity reporting under full PFRSs, the Company availed of the exemption provided by the Philippine SEC from the mandatory adoption of PFRS for SMEs and prepared its financial statements in compliance with full PFRSs.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016.



Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company is currently studying the impact of future adoption of PFRS 15.

- PFRS 9, *Financial Instruments*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Cash
Cash includes cash on hand, cash in bank and cash equivalents.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value

measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

As of December 31, 2016 and 2015, the Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments
All financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transactions costs. The Company's financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2016 and 2015, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current except for maturities greater than 12 months after the reporting date date. These are classified as noncurrent liabilities.

As of December 31, 2016 and 2015, the Company's other financial liabilities include accounts payable and accrued liabilities, and amounts due to related parties.

Impairment of Financial Assets
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and

observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company assesses whether objective evidence of impairment exists individually.

The carrying amount of the impaired asset is reduced either directly or through use of an allowance account and the loss is recognized in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increase or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Investment Properties
Investment properties consist of properties that are not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.



Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties, except for land, are carried at cost less accumulated depreciation and any impairment losses. Land is carried at cost less any impairment in value.

Depreciation of investment properties commences once these are available for use and is computed using the straight-line method over the following useful lives of the assets:

	Number of Years
Buildings and improvements	15 to 21
Building equipment	5 to 20

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the investment property is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount off the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of Investment Properties

The carrying values of investments properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units (CGUs) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in

prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Input Value Added Tax (VAT) and Deferred Input VAT
Input VAT and deferred input VAT represent substantially the VAT due or paid on the purchase of capital goods (i.e., land and building) subjected to VAT exceeding ₱1,000,000. The input VAT can be claimed against any future liability to the Bureau of Internal Revenue (BIR) for output VAT received from sale of goods and services subjected to VAT in the following manner:

a. If the estimated useful life of a capital good is five years or more, the input VAT shall be spread evenly over a period of 60 months and the claim for input VAT credit will commence in the calendar month when the capital good is acquired.
b. If the estimated useful life of a capital good is less than five years, the input VAT shall be spread evenly on a monthly basis by dividing the input VAT by the actual number of months comprising the estimated useful life of the capital good.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Input VAT" account under the "Other current assets" account or "Accounts payable and accrued liabilities" account in the statement of financial position.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares.

Additional Paid-in Capital
Additional Paid-in Capital represents the portion of the paid-in capital in excess over the par value of issued shares of capital stock.

Deficit
Deficit represent the cumulative balance of periodic net income or loss, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the present value of the consideration received or receivable excluding output VAT. The following specific recognition criteria must also be met before revenue is recognized:

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Service Income
Service income is recognized upon performance of the service.

Interest income
Interest income is recognized as the interest accrues using the effective interest rate method.

Costs and Expenses
Costs and expenses are recognized when a decrease in future economic benefit related to a decrease in an asset or increase of a liability has arisen that can be measured reliably. Costs and expenses are expensed as incurred.



Leases

Leases where the Company does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be utilized.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statement when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Company to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the financial statements when they become reasonably determinable.

Accounting estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of investment properties
Internal and external sources of information are reviewed at each reporting date to identify indications that the investment properties may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount. Management assessed that there are no indications of impairment as of December 31, 2016 and 2015.

Recognition of deferred income tax assets
Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

No deferred income tax assets were recognized in 2016 and 2015 because management believes that it is more likely that these will not be realized in the future (see Note 10).

Impairment of receivables
Recoverability of specific receivables are evaluated based on the best available facts and circumstances, the length of the Company's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated to be uncollectible. The Company used specific impairment on its receivables. The Company did not assess for collective impairment due to few counterparties which can be specifically identified.

As of December 31, 2016 and 2015, the carrying values of receivables amounted to ₱15,152,032 and ₱ 21,768,714 respectively. Allowance for doubtful accounts amounted to ₱382,780,292 for both December 31, 2016 and 2015 (see Note 5).

Provisions
The estimate of the probable costs for the resolution of possible third party claims has been developed in consultation with outside consultant/legal counsel handling the Company's defense on these matters and is based upon an analysis of potential results. When management and its outside consultant/legal counsel believe that the eventual liabilities under these and any other claims, if any, will not have a material effect on the Company's financial statements, no provision for probable losses is recognized in the Company's financial statements. The amount of provision is being reassessed at least on an annual basis to consider new relevant information. No provision for probable losses was recognized in the Company's financial statements for the years ended December 31, 2016 and 2015.

4. Cash and Cash Equivalents

The account consists of:

	2016	2015
Cash on hand	**₱5,000**	₱15,000
Cash in banks	**1,788,588**	8,189,441
Cash equivalents	**35,353,417**	10,000,167
	₱37,147,005	₱18,204,608

Cash in banks consists of deposits from reputable local bank which earn interest at the prevailing bank deposit rates. Interest income recognized in the statement of comprehensive income amounted to ₱358,715 and ₱20,620 on December 31, 2016 and 2015, respectively.

5. Receivables

	2016	2015
Trade:		
Related parties (Note 9)	**₱16,018,805**	₱25,735,681
Third parties	**8,003,096**	4,890,399
Due from related parties (Note 9)	**373,900,423**	373,900,423
Others	**10,000**	22,503
	397,932,324	404,549,006
Less allowance for doubtful accounts (Note 9)	**382,780,292**	382,780,292
	₱15,152,032	₱21,768,714

Trade receivables are due within 30 to 90 days and are noninterest-bearing. Allowance for doubtful accounts are based on specific impairment assessment by the company.

Movements in the allowance for doubtful accounts follow:

	2016	2015
Beginning balance	**₱382,780,292**	₱381,399,654
Provision for the year (Note 9)	**–**	1,611,098
Write off	**–**	(230,460)
Ending balance	**₱382,780,292**	₱382,780,292

Breakdown of the allowance for doubtful accounts as of December 31 follow:

	2016	2015
Trade receivables:		
Related parties (Note 9)	**₱7,458,882**	₱7,458,882
Third parties	**1,419,105**	1,419,105
Due from related parties (Note 9)	**373,900,423**	373,900,423
Others	**1,882**	1,882
	₱382,780,292	₱382,780,292

6. Other Current Assets

	2016	2015
Input VAT, net	**₱13,837,522**	₱16,224,353
Creditable withholding tax	**3,198,431**	4,702,155
	₱17,035,953	₱20,926,508

7. Investment Properties

December 31, 2016:

	Land	**Buildings and Improvements**	**Building Equipment**	**Construction in Progress**	**Total**
Cost					
Beginning of year	**₱170,590,000**	**₱104,348,725**	**₱17,310,089**	**₱–**	**₱292,248,814**
Additions	**–**	**–**	**2,033,377**	**1,360,696**	**3,394,073**
End of year	**170,590,000**	**104,348,725**	**19,343,466**	**1,360,696**	**295,642,887**
Accumulated Depreciation					
Beginning of year	**–**	**41,737,973**	**14,453,960**	**–**	**56,191,933**
Depreciation for the year	**–**	**4,688,468**	**931,330**	**–**	**5,619,798**
End of year	**–**	**46,426,441**	**15,385,290**	**–**	**61,811,731**
Net Book Values	**₱170,590,000**	**₱57,922,284**	**₱3,958,176**	**₱1,360,696**	**₱233,831,156**

December 31, 2015:

	Land	Buildings and Improvements	Building Equipment	Construction in Progress	Total
Cost					
Beginning of year	₱170,590,000	₱99,623,725	₱17,310,089	₱4,725,000	₱292,248,814
Additions	–	–	–	–	–
Reclassification	–	4,725,000	–	(4,725,000)	–
End of year	170,590,000	104,348,725	17,310,089	–	292,248,814
Accumulated Depreciation					
Beginning of year	–	37,152,630	13,584,670	–	50,737,300
Depreciation for the year	–	4,585,343	869,290	–	5,454,633
End of year	–	41,737,973	14,453,960	–	56,191,933
Net Book Values	₱170,590,000	₱62,610,752	₱2,856,129	₱–	₱236,056,881

The Company has no restrictions on the realizability of its investment properties and no contractual obligations either to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The aggregate fair value of the Company's investment properties amounted to ₱302,188,000 which was based on the valuation performed by an independent firm of appraisers on January 2, 2014 using the market data approach.

8. Accounts Payable and Accrued Liabilities

	2016	2015
Accrued expenses	**₱58,122**	₱1,311,246
Other liabilities	**1,040,543**	46,930
	₱1,098,665	₱1,358,176

Accounts payable are noninterest bearing and are normally based on 30 days term.

9. Related Party Transactions

The Company has the following significant transactions and outstanding balances with related parties:

a. The Company rents its office facilities to related parties. The related rental income from the related parties and the outstanding balance as of year-end, are as follows:

		Transactions for the Years ended December 31		**Outstanding Balances as of December 31** (Note 5)	
Related Parties	**Terms and Conditions**	**2016**	2015	**2016**	2015
Entities under common major shareholder group					
Unilever - RFM	Unsecured and will be settled in cash	**₱–**	₱–	**₱762,315**	₱762,315
Other affiliates					
Swift Foods, Inc.	-do-	**158,651**	154,440	**6,591,571**	6,591,332
Conglomerate Securities and Financing Corporation	-do-	**134,867**	102,465	**26,008**	10,988
RFM Insurance Brokers, Inc.	-do-	**464,322**	344,655	**38,487**	35,129
RFM Foundation	-do-	**145,623**	226,180	**–**	389,243
Joey Pepperoni Pizzeria	-do-	**1,283,353**	502,740	**5,480,952**	4,519,498
Philippine Center of Entrepreneur	-do-	**192,342**	33,566	**123,147**	186,233
		₱2,379,158	₱1,364,046	**₱13,022,480**	₱12,494,738

The Company's allowance for doubtful accounts on receivables from Swift amounted to ₱6,577,051 for both December 31, 2016 and 2015 (See Note 5).

b. The Company charges service fee for a monthly rate of ₱400 per square meter to RFM Divisions for the payment of utilities, janitorial services, security services and other expenses incurred in relation with keeping the RFM Building and premises safe and convenient for business.

		Transactions for the Years ended December 31		**Outstanding Balances as of December 31 (Note 5)**	
Related Parties	**Terms and Conditions**	**2016**	2015	**2016**	2015
Parent Company					
RFM Corporation	Unsecured and will be settled in cash	**₱9,796,087**	₱9,715,966	**₱2,996,325**	₱14,307,952

c. Receivables from RFM shareholders which amounted to ₱373,900,423 as of December 31, 2016 and 2015 were fully provided with allowance for doubtful accounts (See Note 5).

d. The Company was granted advances by Philtown in prior years which are non-interest-bearing and payable on demand. Outstanding balance is presented as "Due to related party" in the statement of financial position.

Related Party	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balances as of December 31	
		2016	2015	**2016**	2015
Entity under common major shareholder group					
Philtown	Unsecured and will be settled in cash	**₱–**	₱–	**₱21,469,199**	₱21,469,199

10. Income Taxes

a. The provision for current income tax in 2016 and 2015 represents the regular corporate income tax and minimum corporate income tax (MCIT), respectively.

b. The Company did not recognize deferred income tax assets on deductible temporary difference on allowance for doubtful accounts amounting to ₱382,780,292 as of December 31, 2016 because management believes that it is more likely than not that these will not be realized in the future.

c. The deferred income tax liability as of December 31, 2016 and 2015 amounting to ₱157,034 and ₱202,859 respectively, pertains to taxable temporary difference on accrued rental income.

d. For the MCIT incurred in the years 2013 to 2015 amounting to ₱451,439 was applied in 2016.

e. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income before income tax to the provision for income tax as shown in profit or loss follows:

	2016	2015
Provision for income tax computed at the statutory income tax rate	**₱2,643,145**	₱2,236,614
Additions to (reductions in) income tax resulting from:		
Application of MCIT from prior years without deferred income tax asset set-up	**(451,439)**	–
Interest income subjected to final tax	**(107,615)**	(6,186)
Application of NOLCO from prior years without deferred income tax asset set-up	**–**	(2,367,472)
Deductible temporary differences and NOLCO for which no deferred income tax assets were recognized in the current year	**–**	483,329
MCIT without deferred income tax asset set-up	**–**	234,055
Excess MCIT over RCIT in the current year	**–**	(198,586)
Provision for income tax	**₱2,084,091**	₱381,754

11. Leases

The Company leases its buildings to various related parties and third parties for a period of two to 10 years subject for renewal unless terminated by the Company. The leases generally provide for either (a) a fixed monthly rent, or (b) with an escalation rate of 5% or 10% per annum. Rent income earned from operations relating to the lease agreements amounted to ₱17,512,559 and ₱17,067,954 for the years ended December 31, 2016 and 2015, respectively. Security deposits on these lease agreements which are applied against amounts due from lessee at the end of lease term amounted to ₱1,691,593 and ₱1,903,214 as of December 31, 2016 and 2015.

Future minimum rental income under the operating leases as of December 31, 2016 and 2015 are as follows:

	2016	2015
Within one year	**₱9,856,733**	₱8,470,372
After one year but not more than five years	**12,933,278**	5,580,639
	₱22,790,011	₱14,051,011

12. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's risk management is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's policies for managing the aforementioned risks are summarized below:

Credit risk
Credit risk is the risk that the Company will incur a loss because its counterparties failed to settle their obligations. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Company deals only with reputable counterparties, financial institutions and tenants. Receivable balances are monitored on an ongoing basis to minimize the Company's exposure to bad debts. Creditworthiness of the tenants and related parties is reassessed at least once or twice a year to determine sufficiency of any probable losses to be provided. The Company's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk.

The table below shows the Company's credit risk with gross maximum exposure equal to the carrying amount of the financial assets as of December 31, 2016 and 2015, without taking account of any collateral and other credit enhancements:

	2016	2015
Cash in banks and cash equivalents	**₱37,142,005**	₱18,189,608
Receivables:		
Third parties	**8,003,096**	4,890,399
Related parties	**16,018,805**	25,735,680
Total credit risk exposure	**₱61,163,906**	₱48,815,687

The credit quality of financial assets is managed by the Company using internal credit ratings. Cash in banks are classified as "Excellent" accounts since these are deposited and invested with reputable banks and can be withdrawn anytime.

Receivables that are neither past due nor impaired are classified as "Excellent" accounts if these are expected to be collected or liquidated on or before their due dates, or upon call by the Company if there are no pre-determined defined due dates. All other financial assets that are neither past due nor impaired are classified as "Good" accounts. The Company classifies its trade receivables as "Excellent", except for amounts due from related parties which are impaired amounting to ₱373,900,423 as of December 31, 2016 and 2015, and trade and other receivables amounting to ₱8,879,869 as of December 31, 2016 and 2015 respectively (see Notes 5).

Liquidity risk
The Company addresses liquidity concerns through cash advances from the Parent Company.

The following tables show the maturity profile of the Company's other financial liabilities as well as the undiscounted cash flows from loans and receivables used for liquidity purposes.

December 31, 2016:

	Less than 3 months	**3 to 12 months**	**More than one year**	**Total**
Accrued liabilities	**₱58,122**	**₱–**	**₱–**	**₱58,122**
Due to a related party	**21,513,574**	**–**	**–**	**21,513,574**
	₱21,571,696	**₱–**	**₱–**	**₱21,571,696**
Cash in bank and cash equivalents	**37,142,005**			**37,142,005**
Receivables:				
Third parties	**8,003,096**	**–**	**–**	**8,003,096**
Related parties	**16,018,805**	**–**	**–**	**16,018,805**
	₱61,163,906	**₱–**	**₱–**	**₱61,163,906**

December 31, 2015:

	Less than 3 months	3 to 12 months	More than one year	Total
Accrued liabilities	₱1,311,246	₱–	₱–	₱1,311,246
Due to a related party	21,469,199	–	–	21,469,199
	₱22,780,445	₱–	₱–	₱22,780,445
Cash in bank and cash equivalents:	₱3,063,175	₱–	₱–	₱3,063,175
Receivables:				
Third parties	3,778,163	–	–	3,778,163
Related parties	25,508,957	–	–	25,508,957
	₱32,350,295	₱–	₱–	₱32,350,295

Categories and Class of Financial Instruments
The fair values of cash in banks, receivable from third parties and related parties, accrued liabilities and due to a related party approximate their carrying values due to the relatively short-term nature of these financial instruments.

As of December 31, 2016 and 2015, the Company has no financial instruments carried at fair value. Thus, disclosure on source of inputs using a three-level fair value hierarchy is not necessary.

13. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management policy is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern and to ensure that the Company complies with externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the Company considers the following as capital:

	2016	2015
Capital stock	**₱324,645,040**	₱324,645,040
Additional paid in capital	**317,992,264**	317,992,264
Deficit	**(363,702,462)**	(370,428,854)
	₱278,934,842	₱272,208,450

14. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company reported and/or paid the following types of taxes in 2016:

Output VAT
The rental revenue for the year ended December 31, 2016 and its corresponding output VAT as of December 31, 2016 which was declared in the Company's VAT returns amounted to ₱33,311,352 and ₱3,997,362, respectively.

Input VAT
Details of the Company's input VAT as of December 31, 2016 follow:

Balance at January 1, 2016	₱16,224,353
Current year's domestic purchases/payments for domestic purchase of services	1,610,532
	17,834,885
Application of output VAT	(3,997,363)
Balance at December 31, 2016	₱13,837,522

Taxes and License Fees
The component of the Company's taxes and license fees in 2016 follows:

Real property taxes	₱905,074
Business taxes	618,350
Others	25,263
Total	₱1,548,687

Withholding Taxes

The amount of expanded withholding taxes (EWT) and fringe benefit tax paid amounted to ₱595,731 and ₱33,176 for the year ended December 31, 2016.

Withholding taxes - EWT	₱459,055
Withholding taxes - Compensation	136,676
Fringe benefit tax	33,176
Total	₱628,907

Invest Asia Corporation
(A Subsidiary of RFM Corporation)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Invest Asia Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Invest Asia Corporation (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

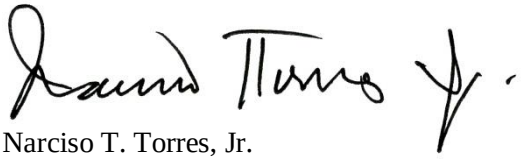
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 14 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Invest Asia Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 4, 2018 valid until February 13, 2021
PTR No. 6621336, January 9, 2018, Makati City

April 3, 2018

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱53,269,061**	₱37,147,005
Receivables (Note 5)	**16,698,691**	15,152,032
Other current assets (Note 6)	**12,582,809**	17,035,953
Total Current Assets	**82,550,561**	69,334,990
Noncurrent Assets		
Investment properties (Note 7)	**228,550,957**	233,831,156
Other noncurrent assets	**185,187**	185,187
Total Noncurrent Assets	**228,736,144**	234,016,343
	₱311,286,705	₱303,351,333
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**₱1,793,476**	₱1,098,665
Due to a related party (Note 9)	**21,469,199**	21,469,199
Total Current Liabilities	**23,262,675**	22,567,864
Noncurrent Liabilities		
Security deposits (Note 11)	**1,929,731**	1,691,593
Deferred income tax liability (Note 10)	**308,471**	157,034
Total Noncurrent Liabilities	**2,238,202**	1,848,627
Total Liabilities	**25,500,877**	24,416,491
Equity		
Capital stock - ₱1 par value		
Authorized - 500,000,000 shares		
Issued and outstanding - 324,645,040 shares	**324,645,040**	324,645,040
Additional paid-in capital	**317,992,264**	317,992,264
Deficit	**(356,851,476)**	(363,702,462)
Total Equity	**285,785,828**	278,934,842
	₱311,286,705	₱303,351,333

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUE		
Lease income (Note 11)	**₱17,984,700**	₱17,870,643
Service income	**15,795,958**	15,988,542
	33,780,658	33,859,185
COSTS AND EXPENSES		
Outside services	**8,861,759**	6,653,189
Utilities	**6,837,899**	6,795,063
Depreciation (Note 7)	**5,722,054**	5,619,798
Taxes and license fees	**1,516,595**	1,581,863
Repairs and maintenance	**737,901**	3,528,576
Personnel cost	**425,651**	715,019
Others	**585,634**	359,735
	24,687,493	25,253,243
OTHER INCOME (CHARGES)		
Interest income (Note 4)	**643,520**	358,715
Other charges	**(225,356)**	(154,174)
	418,164	204,541
INCOME BEFORE INCOME TAX	**9,511,329**	8,810,483
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 10)		
Current	**2,508,906**	2,129,917
Deferred	**151,437**	(45,826)
	2,660,343	2,084,091
TOTAL COMPREHENSIVE INCOME*	**₱6,850,986**	₱6,726,392

* There are no items representing other comprehensive income

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock	Additional Paid-in Capital	Deficit	Total
BALANCES AT DECEMBER 31, 2015	₱324,645,040	₱317,992,264	(₱370,428,854)	₱272,208,450
Total comprehensive income	–	–	6,726,392	6,726,392
BALANCES AT DECEMBER 31, 2016	324,645,040	317,992,264	(363,702,462)	278,934,842
Total comprehensive income for the year	–	–	6,850,986	6,850,986
BALANCES AT DECEMBER 31, 2017	**₱324,645,040**	**₱317,992,264**	**(₱356,851,476)**	**₱285,785,828**

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱9,511,329**	₱8,810,483
Adjustments for:		
Depreciation (Note 7)	**5,722,054**	5,619,798
Interest income (Note 4)	**(643,520)**	(358,715)
Operating income before working capital changes	**14,589,863**	14,071,566
Decrease (increase) in:		
Receivables	**(1,467,651)**	6,616,682
Other current assets	**4,453,144**	3,890,555
Increase (decrease) in:		
Accounts payable and accrued liabilities	**694,811**	(259,510)
Security deposits	**238,138**	(211,621)
Net cash generated from operations	**18,508,305**	24,107,672
Income taxes, net of creditable withholding taxes	**(2,508,906)**	(2,129,917)
Interest received	**564,512**	358,715
Net cash from operating activities	**16,563,911**	22,336,470
CASH FLOWS USED IN INVESTING ACTIVITY		
Additions to investment properties (Note 7)	**(441,855)**	(3,394,073)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**16,122,056**	18,942,397
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4**)**	**37,147,005**	18,204,608
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4**)**	**₱53,269,061**	₱37,147,005

See accompanying Notes to Financial Statements.

INVEST ASIA CORPORATION
(A Subsidiary of RFM Corporation)
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of the Financial Statements

Corporate Information
Invest Asia Corporation (the Company), a 95.99%-owned subsidiary of RFM Corporation (RFM), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 2, 2002. The Company's primary purpose is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness and other securities or obligations of any corporation or corporations, association or associations, and domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefore in money or by exchanging therefore stocks, bonds, or other evidences of indebtedness or securities of this any corporation, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of any interest, dividends and income arising from such property; and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The Company's registered office address is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for Issuance of the Financial Statements
The financial statements were authorized for issuance by the Company's Board of Directors (BOD) on April 3, 2018.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱ or Peso), which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Exemption from adoption of PFRS for Small and Medium-sized entities (SMEs)
The Company meets the definition of an SME under the criteria set out by the Philippine SEC when the Philippine SEC adopted PFRS for Small and Medium-sized Entities (PFRS for SMEs) as part of its rules and regulations. However, as a subsidiary of an entity reporting under full PFRSs, the Company availed of the exemption provided by the Philippine SEC from the mandatory adoption of PFRS for SMEs and prepared its financial statements in compliance with full PFRSs.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is currently studying the impact of future adoption of PFRS 15.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company plans to adopt the new standard upon effectivity.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities



(a) Classification and measurement

Debt securities currently held as available-for-sale (AFS) under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. However, the Company is still finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest (SPPI) to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Company intends to apply the option to present fair value changes for these investments in OCI. The Company is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss.

(b) Impairment

PFRS 9 requires the Company to record expected credit losses on all of its debt financial assets. The Company plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Company's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality.

The Company is currently studying the impact of the change in measuring credit losses.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The Company is currently studying the impact of future adoption of PAS 40.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their

statement of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Current versus Noncurrent Classification
The Company presents assets and liabilities in statement of financial position based on current or noncurrent classification.

An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets including deferred taxes are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities including deferred taxes as noncurrent.

Cash and Cash Equivalents

Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value. Cash equivalents include short-term investments that can be pre-terminated and readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable



For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

As of December 31, 2017 and 2016, the Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transactions costs. The Company's financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The Company also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market.

The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2017 and 2016, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Company's cash and cash equivalents (excluding cash on hand) and receivables.



Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current except for maturities greater than twelve (12) months after the reporting date date. These are classified as noncurrent liabilities.

As of December 31, 2017 and 2016, the Company's other financial liabilities include accounts payable and accrued liabilities, amounts due to related parties and security deposits.

Impairment of Financial Assets
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced either directly or through use of an allowance account and the loss is recognized in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increase or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the Company's rights to receive cash flows from the asset have expired; or
- the Company' has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Investment Properties

Investment properties consist of properties that are not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties, except for land, are carried at cost less accumulated depreciation and any impairment losses. Land is carried at cost less any impairment in value.



Depreciation of investment properties commences once these are available for use and is computed using the straight-line method over the following useful lives of the assets:

	Number of Years
Buildings and improvements	15 to 21
Building equipment	5 to 20

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the investment property is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount off the asset is recognized in profit or loss in the period of derecognition.

A transfer is made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. A transfer is made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Impairment of Investment Properties

The carrying values of investments properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units (CGUs) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior

years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Value-added Tax (VAT)
Expenses and assets are recognized, net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable, to the taxation authority is included as part of receivables or payables in the statement of financial position.

Capital Stock
Common stock is classified as equity and recorded at par. Proceeds in excess of par value are recorded as 'additional paid in capital' account in the statement of financial position. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

Additional Paid-in Capital
Additional Paid-in Capital represents the portion of the paid-in capital in excess over the par value of issued shares of capital stock.

Deficit
Deficit represents the cumulative balance of periodic net income or loss, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the present value of the consideration received or receivable excluding output VAT. The following specific recognition criteria must also be met before revenue is recognized:

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Service income
Service income from maintenance of the leased building is recognized when earned.

Interest income
Interest income is recognized as the interest accrues using the EIR method.

Costs and Expenses
Costs and expenses are recognized when a decrease in future economic benefit related to a decrease in an asset or increase of a liability has arisen that can be measured reliably. Costs and expenses are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for (a), (c) and (d) scenarios above, and at the date of renewal or extension period for scenario (b).

Company as lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be utilized.

Deferred tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.



Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statement when material.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Company to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the financial statements when they become reasonably determinable.

Accounting estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which has the most significant effect on the amounts recognized in the financial statements.

Classification of property as investment property
The Company determines whether a property is classified as an investment property when it is not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. The Company classifies its buildings and improvements, and building equipment as investment properties for these are held primarily to earn rental income. The land which is an integral part of the property for lease is also classified as investment property.

The carrying values of the Company's investment properties amounted to ₱228,550,957 and ₱233,831,156 as of December 31, 2017 and 2016, respectively (Note 7).

Impairment of investment properties
Internal and external sources of information are reviewed at each reporting date to identify indications that the investment properties may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized if the carrying amount of the asset exceeds its

estimated recoverable amount. Management assessed that there are no indications of impairment as of December 31, 2017 and 2016.

Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Recognition of deferred income tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

No deferred income tax assets were recognized in 2017 and 2016 because management believes that it is more likely that these will not be realized in the future (Note 10).

Impairment of receivables

Recoverability of specific receivables are evaluated based on the best available facts and circumstances, the length of the Company's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated to be uncollectible. The Company used specific impairment on its receivables. The Company did not assess for collective impairment due to few counterparties which can be specifically identified.

As of December 31, 2017 and 2016, the carrying values of receivables amounted to ₱16,698,691 and ₱15,152,032, respectively. Allowance for doubtful accounts amounted to ₱382,780,292 as of December 31, 2017 and 2016 (Note 5).

Estimation of useful lives of investment properties

The useful lives of buildings and improvements, and building and office equipment classified as investment properties are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry bench mark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of investment properties would increase the Company's recorded expenses and decrease noncurrent assets.

The estimated useful lives of the Company's investment properties are discussed in Note 2 to the financial statements. There were no changes in the estimated useful lives of investment properties for 2017 and 2016.

The carrying values of the Company's depreciable investment properties amounted to ₱57,960,957 and ₱63,241,156 as of December 31, 2017 and 2016, respectively (Note 7).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱5,000**	₱5,000
Cash in banks	**3,264,061**	1,788,588
Cash equivalents	**50,000,000**	35,353,417
	₱53,269,061	₱37,147,005

Cash in banks consists of deposits in local banks which earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks and cash equivalents amounted to ₱643,520 and ₱358,715 on December 31, 2017 and 2016, respectively.

5. Receivables

	2017	2016
Trade:		
Related parties (Note 9)	**₱17,548,566**	₱16,018,805
Third parties	**7,940,988**	8,003,096
Nontrade:		
Due from related parties (Note 9)	**373,900,423**	373,900,423
Others	**89,006**	10,000
	399,478,983	397,932,324
Less allowance for doubtful accounts (Note 9)	**382,780,292**	382,780,292
	₱16,698,691	₱15,152,032

Trade receivables are due within 30 to 90 days and are noninterest-bearing. Allowance for doubtful accounts are based on specific impairment assessment by the Company.

Allowance for doubtful accounts amounted to ₱382,780,292 as of December 31, 2017 and 2016. No additional provision were made in 2017 and 2016.

Breakdown of the allowance for doubtful accounts as of December 31, 2017 and 2016 follow:

Trade receivables	
Related parties	**₱7,458,882**
Third parties	**1,419,105**
Nontrade	
Due from related parties (Note 9)	**373,900,423**
Others	**1,882**
	₱382,780,292

6. Other Current Assets

	2017	2016
Input VAT - net	**₱11,327,097**	₱13,837,522
Creditable withholding tax	**1,255,712**	3,198,431
	₱12,582,809	₱17,035,953

7. Investment Properties

2017

	Land	**Buildings and Improvements**	**Building Equipment**	**Construction in Progress**	**Total**
Cost					
Beginning of year	**₱170,590,000**	**₱104,348,725**	**₱19,343,466**	**₱1,360,696**	**₱295,642,887**
Additions	**–**	**–**	**–**	**441,855**	**441,855**
Reclassification	**–**	**–**	**1,802,551**	**(1,802,551)**	**–**
End of year	**170,590,000**	**104,348,725**	**21,146,017**	**–**	**296,084,742**
Accumulated Depreciation					
Beginning of year	**–**	**46,426,441**	**15,385,290**	**–**	**61,811,731**
Depreciation for the year	**–**	**4,688,467**	**1,033,587**	**–**	**5,722,054**
End of year	**–**	**51,114,908**	**16,418,877**	**–**	**67,533,785**
Net Book Values	**₱170,590,000**	**₱53,233,817**	**₱4,727,140**	**₱–**	**₱228,550,957**

2016

	Land	Buildings and Improvements	Building Equipment	Construction in Progress	Total
Cost					
Beginning of year	₱170,590,000	₱104,348,725	₱17,310,089	₱–	₱292,248,814
Additions (Note 12)	–		2,033,377	1,360,696	3,394,073
End of year	170,590,000	104,348,725	19,343,466	1,360,696	295,642,887
Accumulated Depreciation					
Beginning of year	–	41,737,973	14,453,960	–	56,191,933
Depreciation for the year	–	4,688,468	931,330	–	5,619,798
End of year	–	46,426,441	15,385,290	–	61,811,731
Net Book Values	₱170,590,000	₱57,922,284	₱3,958,176	₱1,360,696	₱233,831,156

The Company has no restrictions on the realizability of its investment properties and no contractual obligations either to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. Rent income earned from operations amounted to ₱17,984,700 and ₱17,870,643 for the years ended December 31, 2017 and 2016, respectively (Note 11).

The aggregate fair value of the Company's land amounted to ₱368,962,000 which was based on the valuation performed by an independent firm of appraisers on December 29, 2017 using the sales comparison approach.

The appraised value of the land was determined using the market approach which is a valuation technique that use prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-10%) and location (-10% to 15%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the accredited independent appraisers would increase (decrease) the fair value of the parcels of land (Level 3 - Significant unobservable inputs).

8. Accounts Payable and Accrued Liabilities

	2017	2016
Accounts payable	**₱1,579,240**	₱956,432
Accrued expenses	**167,470**	58,122
Others	**46,766**	84,111
	₱1,793,476	₱1,098,665

Accounts payable are noninterest bearing and are normally based on 30-day term. Accrued expenses consist of accrual for the Company's utilities and other expenses incidental to its operation.

9. Related Party Transactions

The Company has the following significant transactions and outstanding balances with related parties:

a. The Company provides lease office facilities and related maintenance to its related parties. The related lease and service income from the related parties and the outstanding balance as of year-end, are as follows:

			Transactions for the Years ended December 31		**Outstanding Balances as of December 31** (Note 5)	
Related Parties	**Terms and Conditions**	**Statement of Financial Position Account**	**2017**	2016	**2017**	2016
Parent Company						
RFM Corporation	Unsecured, No impairment	Receivables	**₱9,531,884**	₱9,796,087	**₱3,030,412**	₱2,996,325
Entities under common major shareholder group						
Unilever RFM Ice Cream Inc.	Unsecured, No impairment	Receivables	**–**	–	**762,315**	762,315
Swift Foods, Inc.	Unsecured, No impairment	Receivables	**267,354**	158,651	**6,594,647**	6,591,571
Conglomerate Securities and Financing Corporation	Unsecured, No impairment	Receivables	**158,482**	134,867	**34,889**	26,008
Reliable Insurance Brokers, Inc.	Unsecured, No impairment	Receivables	**543,854**	464,322	**45,246**	38,487
RFM Foundation	Unsecured, No impairment	Receivables	**–**	145,623	**–**	–
Joey Pepperoni Pizzeria	Unsecured, No impairment	Receivables	**1,474,067**	1,283,353	**6,955,019**	5,480,952
Philippine Center of Entrepreneur	Unsecured, No impairment	Receivables	**196,365**	192,342	**126,038**	123,147
					₱17,548,566	₱16,018,805

The Company's allowance for doubtful accounts on receivables from Swift Foods, Inc. amounted to ₱6,577,051 for both December 31, 2017 and 2016 (Note 5).

The office space of RFM Corporation is being occupied at no charge. However, the Company charges service fee for a monthly rate of ₱400 per square meter to RFM Divisions for the payment of utilities, janitorial services, security services and other expenses incurred in relation with keeping the RFM Building and premises safe and convenient for business.

b. Receivables from RFM shareholders which amounted to ₱373,900,423 as of December 31, 2017 and 2016 were fully provided with allowance for doubtful accounts (Note 5).

c. The Company received advances from Philtown Properties, Inc. in prior years which are non-interest-bearing and payable on demand. Outstanding balance is presented as 'Due to related party' in the statement of financial position.

Related Party	Terms and Conditions	Transactions for the Years ended December 31		Outstanding Balances as of December 31	
		2017	2016	**2017**	2016
Entity under common major shareholder group					
Philtown Properties, Inc.	Unsecured and will be settled in cash	**₱–**	₱–	**₱21,469,199**	₱21,469,199

d. The Company has one employee who is the head of security for the building. RFM Corporation provides accounting and other administrative services at no cost to the Company.

10. **Income Taxes**

a. The provision for current income tax in 2017 and 2016 represents the regular corporate income tax.

b. The Company did not recognize deferred tax assets on deductible temporary difference on allowance for doubtful accounts amounting to ₱382,780,293 as of December 31, 2017 and 2016 because management believes that it is more likely than not that these will not be realized in the future or prior to their expiration.

c. The deferred tax liability as of December 31, 2017 and 2016 amounting to ₱308,471 and ₱157,034, respectively, pertains to taxable temporary difference on lease income arising from straight - line amortization under PAS 17, *Leases*.

d. MCIT incurred in the years 2013 to 2015 amounting to ₱451,439 was applied in 2016.

e. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income before income tax to the provision for income tax as shown in profit or loss follows:

	2017	2016
Provision for income tax computed at the statutory income tax rate	**₱2,853,399**	₱2,643,145
Reductions in income tax resulting from:		
Interest income subjected to final tax	**(193,056)**	(107,615)
Application of NOLCO from prior years without deferred income tax asset set-up	**–**	(451,439)
Provision for income tax	**₱2,660,343**	₱2,084,091

f. Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

11. Leases

The Company leases its building to various related parties and third parties for a period of two (2) to five (5) years subject for renewal unless terminated by the Company. The leases generally provide for either (a) a fixed monthly rent, or (b) with an escalation rate of 5% or 10% per annum. Rent income earned from operations relating to the lease agreements amounted to ₱17,984,700 and ₱17,870,643 for the years ended December 31, 2017 and 2016, respectively. Security deposits on these lease agreements which are applied against amounts due from lessee at the end of lease term amounted to ₱1,929,731 and ₱1,691,593 as of December 31, 2017 and 2016.

Future minimum rental income under the operating leases as of December 31, 2017 and 2016 are as follows:

	2017	2016
Within one year	**₱8,736,392**	₱9,856,733
After one year but not more than five years	**6,335,678**	12,933,278
	₱15,072,070	₱22,790,011

12. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's risk management is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's policies for managing the aforementioned risks are summarized below:

Credit risk
Credit risk is the risk that the Company will incur a loss because its counterparties failed to settle their obligations. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Company deals only with reputable counterparties, financial institutions and tenants. Receivable balances are monitored on an ongoing basis to minimize the Company's exposure to bad debts. Creditworthiness of the tenants and related parties is reassessed at least once or twice a year to determine sufficiency of any probable losses to be provided. The Company's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk.

The Company's gross maximum exposure to credit risk is equal to the carrying amounts of its financial assets as of December 31, 2017 and 2016, before taking into account of any collateral and other credit enhancements:

The credit quality of financial assets is managed by the Company using internal credit ratings. Cash in banks and cash equivalents are classified as "Excellent" accounts since these are deposited and invested with reputable banks and can be withdrawn anytime.

Receivables that are neither past due nor impaired are classified as "Excellent" accounts if these are expected to be collected or liquidated on or before their due dates, or upon call by the Company if there are no pre-determined defined due dates. All other financial assets that are neither past due nor impaired are classified as "Good" accounts. The Company classifies its trade receivables as

"Excellent", except for amounts due from related parties which are impaired amounting to ₱373,900,423 as of December 31, 2017 and 2016, and trade and other receivables amounting to ₱8,879,869 as of December 31, 2017 and 2016, respectively (Note 5).

Liquidity risk
The Company addresses liquidity concerns through cash advances from the Parent Company.

The following tables show the maturity profile of the Company's other financial liabilities as well as the undiscounted cash flows from loans and receivables used for liquidity purposes.

2017

	On demand Less than 3 months	**3 to 12 months**	**More than one year**	**Total**
Cash in bank and cash equivalents	**₱53,264,061**	**₱–**	**₱–**	**₱53,264,061**
Receivables:				
Related parties	**10,089,684**	**–**	**–**	**10,089,684**
Third parties	**6,521,883**	**–**	**–**	**6,521,883**
Others	**87,124**			**87,124**
	₱69,962,752	**₱–**	**₱–**	**₱69,962,752**
Accrued liabilities	**₱167,470**	**₱–**	**₱–**	**₱167,470**
Due to a related party	**21,469,199**	**–**	**–**	**21,469,199**
	₱21,636,669	**₱–**	**₱–**	**₱21,636,669**

2016

	On demand Less than 3 months	**3 to 12 months**	**More than one year**	**Total**
Cash in bank and cash equivalents:	₱37,142,005	₱–	₱–	₱37,142,005
Receivables:				
Related parties	8,559,923	–	–	8,559,923
Third parties	6,583,991	–	–	6,583,991
Others	8,117			8,117
	₱52,294,036	₱–	₱–	₱52,294,036
Accrued liabilities	₱58,122	₱–	₱–	₱58,122
Due to a related party	21,513,574	–	–	21,513,574
	₱21,571,696	₱–	₱–	₱21,571,696

Categories and Class of Financial Instruments
The fair values of cash in banks, receivable from third parties and related parties, accrued liabilities and due to a related party approximate their carrying values due to the relatively short-term nature of these financial instruments.

As of December 31, 2017 and 2016, the Company has no financial instruments carried at fair value. Thus, disclosure on source of inputs using a three-level fair value hierarchy is not necessary.

13. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objective of the Company's capital management policy is to ensure that it maintains sufficient capital to safeguard its ability to continue as a going concern.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

As of December 31, 2017 and 2016, the Company considers the following as its capital:

	2017	2016
Capital stock	**₱324,645,040**	₱324,645,040
Additional paid in capital	**317,992,264**	317,992,264
Deficit	**(356,851,476)**	(363,702,462)
	₱285,785,828	₱278,934,842

As of December 31, 2017 and 2016, the Company is not subject to externally imposed capital requirement.

14. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company is a VAT-registered company. Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

The Company reported and/or paid the following types of taxes in 2017:

Output VAT
The Company is a VAT-registered company with output VAT declaration of ₱4,046,166 for the year based on the rental and service revenue amounting to ₱33,718,052.

Input VAT
Details of the Company's input VAT as of December 31, 2017 follow:

Balance at January 1, 2017	₱13,837,522
Current year's domestic purchases/payments for domestic purchase of services	1,535,741
	15,373,263
Application of output VAT	(4,046,166)
Balance at December 31, 2017	₱11,327,097

Taxes and License Fees
The component of the Company's taxes and license fees in 2017 follows:

Real property taxes	₱905,074
Business taxes	595,364
Others	16,157
Total	₱1,516,595

Withholding Taxes

The amount of expanded withholding taxes (EWT) paid amounted to ₱560,972 for the year ended December 31, 2017.

Withholding taxes - expanded	₱515,546
Withholding taxes on Compensation	45,426
Total	₱560,972

Tax Assessments and Cases

The Company has no deficiency tax assessments, whether protested or not. The Company has not been involved in any cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

PLAN OF MERGER

This Plan of Merger to be implemented by and among:

RFM CORPORATION, a corporation organized and existing by virtue of Philippine laws, with office address at RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City, represented by its President and Chief Executive Officer, JOSE MA. A. CONCEPCION III hereinafter referred to as RFM;

CABUYAO LOGISTICS AND INDUSTRIAL CENTER INC., a corporation organized and existing by virtue of Philippine laws, with office address at RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City, represented by its President, ENRIQUE OLIVER I. REY-MATIAS, hereinafter referred to as CLIC;

INTERBAKE COMMISSARY CORPORATION, a corporation organized and existing by virtue of Philippine laws, with office address at RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City, represented by its President, MA. VICTORIA HERMINIA C. YOUNG, hereinafter referred to as ICC;

and

INVEST ASIA CORPORATION, a corporation organized and existing by virtue of Philippine laws, with office address at RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City, represented by its President, ENRIQUE OLIVER I. REY-MATIAS, hereinafter referred to as IAC;

sets forth that:

RECITALS

WHEREAS:

I. RFM is duly registered with the Securities and Exchange Commission ("SEC") with an authorized capital stock of Three Billion Nine Hundred Seventy-Eight Million Two Hundred Sixty-Five Thousand and Twenty Five Pesos (Php3,978,265,025.00) divided into Three Billion Nine Hundred Seventy-Eight Million Two Hundred Sixty-Five Thousand and Twenty Five (3,978,265,025) common shares with a par value of One Peso (Php1.00) per share. The total capital stock issued and outstanding of RFM amounts to Three Billion Four

Hundred Ninety-Five Million Five Hundred Thousand and Sixty-Six Pesos (Php3,494,500,066.00) as of 30 June 2018.

II. CLIC is duly registered with the SEC with an authorized capital stock of Forty Million Pesos (Php40,000,000.00) divided into Four Hundred Thousand (400,000) shares, with a par value of One Hundred Pesos (Php100.00) per share. The total capital stock issued and outstanding of CLIC amounts to Ten Million Pesos (Php10,000,000.00).

III. ICC is duly registered with the SEC with an authorized capital stock of Two Hundred Million Pesos (Php200,000,000.00) divided into Two Hundred Million (200,000,000) shares, with a par value of One Peso (Php1.00) per share. The total capital stock issued and outstanding of ICC amounts Eighty-Three Million Five Hundred Thousand Pesos (Php83,500,000.00).

IV. IAC is duly registered with the SEC with an authorized capital stock of Five Hundred Million Pesos (Php500,000,000.00) divided into Five Hundred Million (500,000,000) shares, with a par value of One Peso (Php1.00) per share. The total capital stock issued and outstanding of IAC is Five Hundred Million Pesos (Php500,000,000.00).

V. A merger among RFM, CLIC, ICC, and IAC, with RFM as the surviving corporation, is desirable and advantageous to the Parties and their respective shareholders for the following business reasons:

1. The integration of the administrative facilities of the four (4) corporations will result in economies of scale and efficiency of operations;

2. The consolidation of assets of the four (4) corporations will allow the procurement of financing and credit facilities under more favorable terms; and

3. The merger will make possible the more productive use of the properties of the constituent corporations.

VI. The Parties desire to merge pursuant to Sections 76 to 80 of Batas Pambansa Blg. 68, otherwise known as the "Corporation Code of the Philippines."

For the reasons set forth above, and in consideration of the mutual covenants and premises hereto, the merger among the Parties will be submitted for approval of the respective Boards of Directors of the four (4) corporations and their respective stockholders, pursuant to the provisions of Sections 76 to 80 of the Corporation Code of the Philippines.

The terms and conditions of such merger and the method of carrying it into effect are prescribed hereunder:

TERMS OF THE MERGER

1. Following the approval by the SEC of the Parties' Articles of Merger and its issuance of the Certificate of Filing of the Articles of Merger, and subject to the issuance by the Bureau of Internal Revenue ("BIR") of a ruling that the merger complies with Section 40(C)(2) of the National Internal Revenue Code of 1997, CLIC, ICC, and IAC shall be merged into RFM, which shall be the surviving corporation.
2. Upon the Effective Merger Date (end of the month of the date of SEC approval of the merger), all the respective rights, businesses, assets and other properties of CLIC, ICC, and IAC, including, but not limited to, all real and personal properties, contractual rights, licenses, privileges, property rights, claims, bank deposits, stocks, accounts receivables, credit lines, supplies, equipment, motor vehicles and such other assets as shown in the audited balance sheets of CLIC, ICC, and IAC as of 30 June 2018, shall be conveyed, assigned, and transferred to RFM. Likewise, all liabilities of CLIC, ICC, and IAC as of 30 June 2018 shall be assumed by RFM.

   It is understood, furthermore, that whatever assets may not have been reflected in the said balance sheets of CLIC, ICC, and IAC as of 30 June 2018, or may have been omitted therefrom for any reason whatsoever, as well as, all other assets which may come into its possession or to which it may be entitled after the aforesaid date and until the approval of the merger by the SEC shall be deemed included in the conveyance, assignment and transfer.

3. Upon the Effective Merger Date, RFM shall be the surviving corporation and its corporate existence shall continue. RFM shall become the owner of all the rights, assets, privileges and other properties of CLIC, ICC and IAC, and shall assume all the debts and liabilities of CLIC, ICC and IAC in the same manner as though RFM itself incurred such liabilities and obligations and any such claim or action or proceeding against CLIC, ICC and IAC shall be prosecuted by or against RFM; Provided, however, that RFM may avail of all the defenses, rights, privileges, set-offs and counterclaims which CLIC, ICC, and IAC may have under the premises.

4. Upon the Effective Merger Date:

   a. RFM shall be deemed to have acquired all the respective assets and assumed all the liabilities of CLIC, ICC, and IAC. CLIC, ICC and IAC shall confirm the conveyances of such assets to RFM as of the date of the approval of the merger.
   b. The assets will be transferred at the net transfer value as determined on the basis of the audited financial statements as of 30 June 2018.
   c. It is understood, however, that the above valuation and exchange shall be subject to whatever adjustments the SEC may make in order that it will approve the merger. Should this happen, the Parties shall execute such documents and do all acts as may be necessary to implement such adjustments.

5. For purposes of the merger, RFM shall issue shares to the stockholders of CLIC, ICC, and IAC, comprising RFM, Hyland Realty Corporation and Foresight Realty Development Corporation.

6. The basis of the assets and properties transferred pursuant to this Plan of Merger shall be, in the hands of RFM, the same as it would have been in the hands of CLIC, ICC, and IAC.

7. CLIC, ICC and IAC and their proper officers shall, from time to time, execute such documents and do such other or further acts, and take or cause to be taken such actions as may be necessary, to fully effect the merger, or which RFM may deem reasonably necessary or desirable in order to vest in and confirm to RFM title to and possession of the rights, privileges, property, assets and business of CLIC, ICC, and IAC, and otherwise carry out the full intent and purposes of the merger.

8. The Parties, by the action of a majority of their respective Boards of Directors, may amend, modify or supplement this Plan of Merger in such manner as may be agreed upon by them in writing at any time before or after approval hereof by the stockholders of all Parties; Provided, however, that no such amendment, modification or supplement after approval of this Plan of Merger by the stockholders of all Parties shall substantially change the terms of the merger.

9. The Parties shall immediately take all necessary corporate acts to implement their merger, and shall cooperate with each other in obtaining all necessary regulatory filing consents and approvals, as well as, in complying with all applicable regulatory rules and regulations.

10. The Parties undertake to comply with the provisions of BIR Revenue Regulations No. 18-2001 with respect to the BIR's guidelines on the proper monitoring of the basis of properties transferred and shares received pursuant to a tax-free exchange.

IN WITNESS WHEREOF, this Plan of Merger has been signed by the respective representatives of CLIC, ICC, IAC and RFM on this [ ] day of [ ], at Mandaluyong City, Metro Manila, Philippines.

RFM CORPORATION

By:

JOSE MA. A. CONCEPCION III
President and CEO

INTERBAKE COMMISSARY CORPORATION

By:

MA. VICTORIA HERMINIA C. YOUNG
President

CABUYAO LOGISTICS AND

INVEST ASIA CORPORATION

INDUSTRIAL CENTER, INC.

By:

ENRIQUE OLIVER I. REY-MATIAS
President

By:

ENRIQUE OLIVER I. REY-MATIAS
President

SIGNED IN THE PRESENCE OF:

_____ _____

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY, METRO MANILA) – S.S.

BEFORE ME, a Notary Public, in and for the City of Mandaluyong, on this [ ] day of [ ], personally appeared:

Name	**Community Tax Certificate No./ Passport No.**	**Date/Place Issued**
RFM CORPORATION By: Jose Ma. A. Concepcion III	[ ]	[ ]
CABUYAO LOGISTICS AND INDUSTRIAL CENTER, INC. By: Enrique Oliver I. Rey-Matias	[ ]	[ ]
INTERBAKE COMMISSARY CORPORATION By:		

Ma. Victoria Herminia C. Young [ ] [ ]

INVEST ASIA CORPORATION

By:

Enrique Oliver I. Rey-Matias [ ] [ ]

known to me to be the same persons who executed the foregoing instrument entitled Plan of Merger and acknowledged to me that the same is their free and voluntary act and deed and that of the corporations they respectively represent.

This instrument, consisting of six (6) pages including the page whereon the Acknowledgment is written, has been signed by the Parties and the witnesses hereof, and sealed with my notarial seal.

Doc. No. _____:
Page No. _____:
Book No. _____:
Series of 2018.